

IDENTIFICATION AND EVALUATION OF
STANDARDS FOR ADMINISTRATION
OF LOCAL GOVERNMENT FINANCIAL
AFFAIRS—WITH CASE STUDIES
OF THE STATES OF GEORGIA
AND NORTH CAROLINA

By

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TABLE OF CONTENTS

	Page
ACKNOWLEDGMENTS	ii
LIST OF TABLES.	v
LIST OF FIGURES	viii
 Chapter	
I. THE NATURE AND PURPOSE OF THE STUDY.	1
II. ORGANIZATION FOR FINANCIAL ADMINISTRATION.	12
III. STATE SUPERVISION OF LOCAL GOVERNMENT DEBT AND TAX ADMINISTRATION	47
IV. BUDGETARY PLANNING, ACCOUNTING, AND CONTROL.	67
V. REPORTING AND AUDITING	115
VI. SELECTION OF CASE STUDY STATES	153
VII. STATE SUPERVISION OF ORGANIZATION AND OF DEBT AND TAX ADMINISTRATION IN THE CASE STUDY STATES	190
VIII. STATE SUPERVISION OF THE TOOLS AND TECHNIQUES FOR FINANCIAL ADMINISTRATION IN THE CASE STUDY STATES	238
IX. AN ANALYSIS OF RESPONSES TO THE LOCAL GOVERNMENT QUESTIONNAIRE	292
X. AN EXAMINATION OF ECONOMIC, SOCIAL, AND GOVERNMENTAL INDICATORS IN THE CASE-STUDY STATES	309
XI. SUMMARY AND CONCLUSIONS.	343
APPENDICES.	373
LITERATURE CITED.	413
BIOGRAPHICAL SKETCH	418

LIST OF TABLES

Table	Page
1. Total Population, Georgia and North Carolina .	158
2. Population, Urban and Rural, Georgia and North Carolina	159
3. Farm Population as a Per Cent of Total Population Georgia and North Carolina.	159
4. Population Per Square Mile, Georgia and North Carolina	160
5. Population by Race, Georgia and North Carolina	161
6. Personal Income, Georgia and North Carolina. .	162
7. Per Capita Personal Income, Georgia and North Carolina	162
8. Number of Cities, Towns, and Counties, Georgia and North Carolina	163
9. Local Governments Having Managers, Georgia and North Carolina, 1963	293
10. Response to Questionnaires Georgia and North Carolina Cities and Towns.	294
11. Response to Questionnaire Georgia and North Carolina Counties.	295
12. Tabulation of "Yes" Answers to Selected Organization Questions Local Government Questionnaire.	296
13. Tabulation of "Yes" Answers to Selected Questions Regarding Budgetary Planning and Control Local Government Questionnaire	298
14. Tabulation of "Yes" Answers to Selected Questions Regarding Various Aspects of Financial Administration Local Government Questionnaire.	301

Table	Page
15. Per Capita Personal Income Georgia and North Carolina	311
16. Median Income of Families Georgia and North Carolina	311
17. Value of Construction Contracts Georgia and North Carolina (In millions of dollars).	312
18. Manufacturing Payrolls, Value Added, and Expenditures for New Plant and Equipment Georgia and North Carolina	313
19. Wholesale Trade and Selected Services Georgia and North Carolina	314
20. Average Weekly Earnings and Hours, Average Hourly Earnings Non-Manufacturing Employment Georgia and North Carolina	315
21. Property Tax Revenues, 1961 U.S., Georgia, and North Carolina Local Governments	317
22. State and Local Revenues Per \$1000 of Personal Income U.S. (Average), Georgia, and North Carolina	319
23. State and Local Expenditures Per \$1000 of Personal Income U.S. (Average), Georgia, and North Carolina	320
24. State and Local Per Capita Expenditures and Debt Georgia and North Carolina Selected Functions.	321
25. State and Local Per Capita Expenditures for Current Operations Georgia and North Carolina Selected Functions (1957).	322
26. State and Local Governments Full Time Equivalent Employment Per 10,000 Population Georgia and North Carolina Selected Functions, 1957 and 1962.	322
27. Crime Rates Per 100,000 Population - Known Offenses Georgia and North Carolina.	326

Table	Page
28. Table of Fire Insurance Classifications Georgia and North Carolina Cities	327
29. State and Local Debt in 1962 United States Summary (\$ Millions).	328
30. State and Local Debt - 1962 ⁺ Georgia and North Carolina (\$ Millions)	329
31. Net Debt of Local Governments Georgia and North Carolina Selected Years, 1922 to 1962 (Total Amounts in \$1,000's).	330
32. Tabulation of Responses to Local Government Questionnaire Part I.	392
33. Tabulation of Responses to Local Government Questionnaire Part II	401
34. State and Local Government Debt - 1957 Georgia and North Carolina (\$1,000's Except Per Capita)	411

LIST OF FIGURES

Figure	Page
1. Organization Chart, Department of Finance . .	34

CHAPTER I

THE NATURE AND PURPOSE OF THE STUDY

The various fields of public administration have from time to time experienced periods of exceptional intellectual ferment during which large scale movements toward the study and improvement of all aspects of government spring forth in all sections of our country. This is one such period. In the past the impetus has often been supplied by crisis, sometimes political, sometimes economic and in any case acting along with other factors in a pattern by no means so simple and clear-cut as to be attributable to a single cause. The present movement could scarcely be called the product of a crisis, although there are some who have been foretelling disaster for some time. It is, rather, a product of a complex pattern of forces in which an increased awareness of the importance of government revenues and expenditures plays an important part.

Something of the nature of this change in attitudes is expressed in the following quotations from the introduction to Public Finances: Needs, Sources, and Utilization:

. . . implicit in this traditional approach has been the assumption that criteria for judging alternative systems . . . are to be located independently of the fiscal decision itself. There is a rather subtle difference between this approach, which has, broadly speaking, characterized English-language work, and that which looks on the fiscal system as the means through which individuals make decisions concerning the appropriate amount of resources to be devoted to public rather than to private uses. The difference is sufficient to explain . . . the failure of scholars in this country to devote much attention to the fiscal decision-making process as such.

Recent developments represent a belated recognition of this doctrinal gap . . . scholars are now paying increasing attention to the collective decision-making process. Because of these recent developments, Public Finance seems to be on the threshold of becoming one of the most stimulating fields of inquiry in all of the social sciences.¹

Although the present situation is not one of crisis, neither is the proper conduct of the financial operations of government a matter of indifference. Some idea of the magnitude of activities involved, omitting the finances of the national government and its heavy defense-oriented expenditures, can be obtained from the projections of the participants in the conference of which the above book was an outgrowth. Dick Netzer, who was assigned the task of projecting the financial needs and resources of state and local governments over the decade of the 1960's, predicted combined state and local annual expenditures, exclusive of

¹National Bureau of Economic Research, Public Finances: Needs, Sources, and Utilization (Princeton: University Press, 1961), pp. xi, xii.

interest, by 1970 in excess of \$55 billions if no improvement in services takes place. With improved services his estimates exceed \$76.5 billion by 1970.² His projection also included an estimate that state and local debt, assuming the increased standards of services, would reach \$100 billions by 1970 after allowing for sizeable increases in rates of taxation and in other revenues.

Mr. Netzer's estimates, staggering though they may seem, were considered conservative by the reviewers of his paper, whose comments were also reproduced in the conference proceedings. For example, Allen D. Manvel suggested that with respect to just two aspects of Mr. Netzer's assumptions, ". . . additional financing of something between \$30 to \$40 billion would appear to be indicated for the 13-year interval as a whole, either from revenue or from borrowing."³ These amounts are in addition to the amounts projected by Mr. Netzer. Similar views seem to have been held by other reviewers as well.

The figures quoted above give some idea of the importance of good financial management as applied to the

²Ibid., "Needs and Resources: State and Local Governments," p. 42.

³Allen D. Manvel in "Comments" on paper of Dick Netzer, National Bureau of Economic Research, Public Finances: Needs, Sources, and Utilization (Princeton: Princeton University Press, 1961), p. 68.

combined finances of the states and their local units, but as this paper is concerned with the financial administration of local units, it is desirable to consider the relative sizes of state and local expenditures. In The Financial Challenge to the States, it is stated that "Local government finances in the postwar period have climbed without interruption," and that local government spending from its own sources consistently has been higher than state government spending. To put the relationship into more specific terms, state government spending in 1956 made up 16.4 per cent of the combined federal-state-local expenditures while local expenditures were 19 per cent of the combined total.⁴ If the 1956 relationships hold through the 1960's, and if the projections are even approximately correct, the magnitude of local expenditures will be tremendous. The proper administration of such sums of money thus becomes a matter of concern to all.

Even if sound administration of local government finances is accepted as a desirable goal, it still remains to determine upon whom the responsibility for achievement of the goal shall fall, and what mode of attack shall be employed in seeking solutions to the problems involved.

⁴The Tax Foundation, The Financial Challenge to the States (New York, N.Y., The Foundation, 1958), p. 10.

The complexities of our society are such that the activities of individual local units cannot be considered in isolation from the interests of other local units and the state as a whole. At the same time it has often been stated that the strength of our system lies in a strong "grass-roots" democracy, and the political affairs of the local units are the well-spring of such democracy. It becomes apparent that the responsibility for the solution of the problems and achievement of the goals must be shared by the states and their local units, a view which seems to have almost unanimous support among authorities in this field.

Purpose.--It is the purpose of this study to examine the role of the state in relation to local government financial administration, to examine the role of the local units, and to identify and bring together into a logical and useful arrangement, standards for the financial management of local units and for the role of the state in seeking to implement the standards. It is hoped thus to establish a frame of reference which may be used in testing existing patterns in and provisions for the financial administration of local governments, and in suggesting areas where improvement is needed, as well as specific means of achieving the desired improvement.

The standards set forth are based on the weight of authority whenever it appears feasible to determine the

authoritative view with reasonable assurance. In the relatively few instances where the weight of authority is not clear, reference is made to relevant theoretical and logical considerations in arriving at the necessary standards.

Source materials and interviews.--In determining the views of authorities in this field, an extensive review has been made of published materials. Interviews, correspondence, questionnaires, and, to a limited extent, certain unpublished materials have also been used. While the author has been unable to find a study strictly comparable with the present one, there is a great deal of material available which is closely related. Indeed, the material is so extensive as to render complete citation impracticable. There are several sources which are particularly useful, however, and quotations from or references to them will be found throughout the textual material and in the "Sources cited."

In addition to an excellent journal, the Municipal Finance Officers Association also publishes the writings of the National Committee on Governmental Accounting, which are referred to often herein. Additional valuable information may be obtained from the excellent bibliographical lists and special publications distributed by the Association. Other important sources consulted include

the publications of the National Municipal League, The International City Manager's Association, The American Municipal Association, The Council of State Governments, and numerous other associations or organizations of persons concerned with the broad field of government, and particularly those concerned with government financial administration. A comparatively recent, but nonetheless important, addition to the list is the Advisory Commission on Intergovernmental Relations, whose publications are cited at several points in this study.

Additional materials have been obtained from the North Carolina Institute of Government, The North Carolina Local Government Commission, The Georgia Institute of Law and Government, The Institute of Public Affairs at the University of Georgia, and numerous other sources. Personal interviews have included, among others, talks with Mr. W. E. Easterling, Secretary of the North Carolina Local Government Commission, Mr. John Alexander McMahon, General Counsel of the North Carolina Association of County Commissioners, Mrs. Davetta Steed, Director of the North Carolina League of Municipalities, Robert Byrd, Assistant Director, and other staff members of the North Carolina Institute of Government, and various representatives of the North Carolina Association of Certified Public Accountants.

In Georgia, personal interviews include talks with Dr. Morris W. H. Collins of the Institute of Law and Government, University of Georgia, Mr. W. Elmer George, Executive Director of the Georgia Municipal Association, Mr. Hill R. Healan, Executive Director of the Association County Commissioners of Georgia, Mr. Elvin E. East, CPA, chairman of the Governmental Accounting Committee, Georgia Society of Certified Public Accountants, and several others.

Organization.--The identification of standards for local government financial administration is completed in two sections. The first section, composed of Chapters II and III, is devoted to the identification of standards relating to the organization of the state for supervision of the financial administration of its local government units. Two areas of particular state interest, the supervision of local government debt and the supervision of local government taxes, are also considered in the first section. The second section of the identification of and discussion of standards is concerned with standards relating to the tools and techniques of local government financial administration. The tools and techniques given particular consideration are budgetary control and accounting and internal control in Chapter IV, and reporting and auditing in Chapter V.

Following the identification and discussion of the standards, a chapter is presented, setting forth selected information regarding the two case study states of Georgia and North Carolina and indicating why they were chosen for testing purposes.

The organization of the material covering the application of the standards to the case study states parallels that of the chapters in which the standards are developed. The first portion is devoted to an examination of the organization of the two states for the supervision of local governments, including in the term "supervision" any pertinent aspects of the constitutions, statutes, or administrative organization. The provisions of each state in these respects have been compared with the standards and evaluated. The emphasis in the first section of the examination of the two case-study states, which constitutes Chapter VII, is upon organization. Included within the scope of the chapter are organization of the state agencies and state-imposed requirements or restrictions affecting the administrative and financial organization of local governments. In Part II of the examination of the case-study states, which is reported in Chapter VIII, attention is focused upon the constitutional, statutory, or administrative regulation by the states of the use of the tools and techniques of financial administration by local governments.

Chapters IX and X are devoted to the presentation of selected information relative to the financial administration practices of the local governments in the two states and relative to economic or other aspects of the states which may be useful to the reader in evaluating the alternative approaches to local government financial administration. The information in Chapter IX is derived primarily from a questionnaire distributed by the author to local government officials in both states. Chapter X is based upon data from the U. S. Bureau of the Census, Georgia and North Carolina state agencies, and from other sources. No claim is made for the statistical validity of the sample obtained by the author's questionnaire, and no statistical projections are attempted on the basis of the sample. Nonetheless, the information in the sample itself provides some interesting insights into local government financial practices. Similarly, it did not appear feasible to attempt to establish cause and effect relationships between the observance or non-observance of the standards set forth herein and conditions found to exist in the two states. It is believed, however, that some relationships are strongly suggested, if not conclusively established.

In the concluding chapter, the study is summarized and conclusions are set forth.

Limitations of study.--The scope of the study has been restricted to the areas stated above as they relate to

counties, cities, and towns. Other forms of local government have received only incidental treatment. Similarly, towns having populations according to the 1960 Census of less than one thousand persons have been considered to be outside the scope of this study, although mentioned in passing. An important aspect of these limitations is that they exclude consideration of schools. The schools are omitted because they have long been selected for special treatment in many states, including the case study states, and because they are so extensively state supported and state controlled as to more closely resemble state functions than local unit functions. This is not to deny the importance of these activities from a fiscal standpoint, but rather to suggest that they might more properly be made the subject of a separate study. Other forms of districts or local units do not appear significant in the total picture.

CHAPTER II

ORGANIZATION FOR FINANCIAL ADMINISTRATION

It is the purpose of this chapter to identify standards of organization for local government financial administration, including identification of the role of the state in seeking to implement the standards.

The term "identify" is used in connection with the standards to again make it clear that they have not been established by the author, but rather are those which have achieved wide acceptance among authorities in the field of public financial administration.

The procedure in this and subsequent chapters will be to discuss first the question of what constitutes desirable performance in the administration of the financial affairs of the local government units, and then to consider how such performance may best be achieved. The primary means for encouraging the desired results are constitutional authorizations or restrictions, statutory enactments, and administrative organization. Each of these will be considered and evaluated.

In order to clarify or to explain the need for certain standards, it will be necessary to go into matters in some detail at points in the discussion, but no attempt

will be made to present fully detailed coverage of many of the points to be raised. However, fairly comprehensive treatment of most of the points may be found by reference to the sources cited throughout the chapter.

A brief outline of the standards to be discussed in this chapter follows:

- I. Organization, state
 - A. Constitutional provisions
 - B. Statutes
 - C. Administrative organization, state
- II. Organization, local
 - A. Strong executive governmental forms
 - B. Centralized financial operations under finance director or equivalent
 - C. Implementation of local organization standards

Detailed outlines of the standards discussed in this chapter and the following two may be found in Appendix A. A discussion of the standards follows.

Selection of standards

The problem of selection of standards is complicated by the fact that there exists among authorities a very considerable difference of opinion relative both to goals and to techniques for achieving desired goals in certain aspects of public administration. This difference is particularly applicable with respect to the division of authority and responsibility between the states and the local units, and even with respect to the relative status in the structure of the various types of local units. One important factor in the difference is that some of the

standards or goals proposed by writers in the field are of the nature of "ideal" standards according to the terms used in cost accounting. That is, they are goals which, while perhaps highly desirable in theory, are not likely to be achieved in practice in the reasonably foreseeable future. An attempt will be made in this study to select standards which are reasonably achievable and at the same time not inconsistent with progress toward standards of a somewhat higher order.

Constitutional considerations

The fundamental law within which both state governments and local governments must operate is provided by the federal constitution and by the state constitutions. The federal constitution applies uniformly to all states and is largely outside the scope of state administration. It is, therefore, not discussed here. It is pertinent, however, to inquire into the characteristics of a state constitution which would permit and facilitate the development of high standards of performance in local government financial administration. It is at this point that a major difference in viewpoints among public administration authorities appears.

With respect to the appropriate content of a constitution, virtually all of the authorities agree on one proposition; the constitutional provisions should be few

and should be short. Further, they should be confined to those things which have state-wide applicability and are fundamental and timeless. It may well be observed that very few aspects of state government meet such criteria. Dr. Byron R. Abernethy in his discussion of constitutional limitations on state legislatures suggests only five, which are (paraphrased): an organizational framework of the state government in skeleton form; definition of the separation and balance of powers; the suffrage system; a bill of rights; and provisions for amending the constitution itself.¹

Although Dr. Abernethy's primary concern was with the problem of the inability of the state legislatures to function efficiently because of constitutional limitations, he represents a point of view which holds that the state is sovereign. According to this view, local units should derive their authority from legislative enactments rather than from constitutional grants or inherent rights.

A completely contrary view is held by the advocates of "home rule," many of whom maintain that the local units have inherent rights to self-government which can be traced back beyond the days of the federal constitution and the

¹Byron R. Abernethy, Constitutional Limitations on The Legislature (Lawrence, Kansas: Governmental Research Center, The University of Kansas, 1959), p. 33.

federal-state dichotomy of powers which resulted from that document. The more extreme of the "home rule" advocates would include in the constitution a guaranty of complete freedom of self-government by all local government units.

The Advisory Commission on Intergovernmental Relations, while giving some support to the idea of "home rule," has taken a generally more moderate position. The Commission has, however, expressed the view that excessively narrow interpretation by the courts of both constitutional and statutory authorizations constitutes an important problem. The attitude of the courts has hampered attempts by the legislatures to grant reasonable powers of self-government to local units and has imposed an unnecessary burden on the legislatures. It has forced them to deal in detailed terms with matters which could more properly be covered by broad enabling legislation.

As a remedy for this particular problem, the Commission has suggested, "In order to prevent further judicial erosion of the powers of local government, the Commission recommends that the States in their constitutions grant to selected units of local government all functional powers not expressly reserved, pre-empted, or restricted by the legislature."²

²Advisory Commission on Intergovernmental Relations, State Constitutional and Statutory Restrictions upon the Structural, Functional and Personnel Powers of Local Government (Washington: The Commission, 1962), p. 72.

Two observations with regard to the foregoing are relevant to the present discussion. First, the recommendation is concerned with "functional" powers, or the power to get things done. This has reference to the conduct of such activities as police protection, fire protection, or other of the service functions of a governmental unit. Many an activity has been hampered in the past by the judicial attitude that local units could do nothing which was not expressly granted or implied by express grants. The freedom of a local unit to adapt with respect to the functional demands made upon it by its citizens is fully consistent with the objectives of efficient administration set forth herein.

The second point to be emphasized is that the recommendation does not apply to local unit financial administration. It will be the position in this study that the state has an inescapable responsibility in connection with the financial administration of its local units and that it cannot afford to relinquish its authority in that area. It should be noted, also, that the state by legislation may still retain its authority over specific functional matters if it so chooses even should the suggested constitutional stipulations be adopted.

The above discussed constitutional considerations have a direct bearing on the ability of the state and of

its local units to organize effectively for operations and for financial administration, but what of specific financial regulations in the constitution?

The prevailing view appears to be that expressed by the National Municipal League with the subsequent concurrence of the Commission, "Ideally, a constitution should be silent on the subject of taxation and finance, thus permitting the legislature and the governor freedom to develop fiscal policies for the State to meet the requirements of their time."³ This point of view is probably applicable to virtually every aspect of state and local government financial administration, although there may be justification for constitutional prohibitions on the lending of the public credit, or the use for other than governmental purposes of the taxing power, the borrowing power, or the public funds.

The above recommendations with respect to constitutional provisions, if adopted, would tend to leave the field of local government financial administration and state-local relationships pertaining thereto to be dealt with entirely through statutes or administrative agencies.

³National Municipal League, Salient Issues of Constitutional Revision (New York, National Municipal League, 1961), p. 136 as quoted, ibid., p. 7.

While some of the "home-rule" group would doubtless deplore this concept of the extent of state responsibility, the arrangement lends itself to great flexibility, and does not deter the achievement of the advantages of "home-rule" government through statutory enabling legislation.

Statutory provisions

One note with respect to statutory requirements in general seems to be in order at this point. It was well stated by the Committee on State-Local Relations of the Council of State Governments that, ". . . legal solutions are only partial solutions, and that they will accomplish little without concomitant action in the direction of establishing sound administrative practices. . . ." ⁴

The Committee also concluded that ". . . the problems of state-local relationships are too complex for detailed legislative supervision, that legislatures must deal with the various sides of the problem on the basis of principle, that emphasis must be placed on the erection of a sound administrative organization, . . ." ⁵ This means,

⁴ Council of State Governments, Committee on State-Local Relations (Chicago, The Council of State Governments, 1946), p. 180.

⁵ Ibid.

in terms of the form and substance of statutory enactments, that such enactments must be broad statements expressive of legislative policy and intent, couched in such terms as to permit their application to highly diverse local situations in a flexible though consistent manner through administrative action.

State administrative organization

It is suggested that the required administrative organization be achieved by the establishment of either a two-level agency or of two complementary agencies to deal with state-local relationships. The discussion in this study is based on the two-level agency, but would not be materially altered if separate but complementary agencies were under consideration.

The proposed organization consists of a state-local government commission⁶ as the top-level agency, and one or more administrative divisions. The functions of the state-local government commission should be broad, including serving as an appellate body to hear appeals from actions of the administrative divisions; establishing policy and making rules for the guidance of the administrative

⁶Wylie Kilpatrick, "State Technical Assistance to Local Governments' Borrowing Operations," the preliminary draft of a monograph prepared for the Advisory Committee on Intergovernmental Relations, Washington, D.C., 1962.

divisions; coordination with state operating departments such as the highway department, state board of education, or others as appropriate; suggesting changes in legislation or practices to the state legislature or to local officials; providing educational and consultative services to state or local officials; and in general, serving as a link between the state and the local governments within its boundaries.⁷

The suggested new agency should not supersede the existing functional departments of the state in dealing with local governments in the areas of their particular concern, but should seek to coordinate requirements of the various state departments, to eliminate unnecessary duplication of work such as reporting requirements imposed upon local governments by state agencies, and should cooperate with the various state agencies in promoting mutual interests.

The lower echelon of the suggested agency should consist of one or more administrative operating divisions. The specific divisions needed will vary from state to state. For example, one division might be concerned with problems of metropolitan area development in some states, whereas in other states, such a division would be completely unnecessary.

⁷See the Wylie Kilpatrick monograph cited above, and the Council of State Governments, Program of Suggested State Legislation 1963 (Chicago: The Council of State Governments, 1962), pp. 22-24.

One division is appropriate for all states, however, and it is the division with which this paper is concerned. It is the division of local government finance, to be referred to at times in this paper as the finance division. It may be well to note at this point that the operating division of the state agency will always be referred to herein as the finance division or division of local government finance, whereas the finance offices of the local governments will be referred to as finance departments.

Although the finance division should not take over proper functions of the established state departments, the supervision of local government financial affairs should be the exclusive responsibility of the finance division. As Dr. Kilpatrick has noted, there are many dimensions to supervision, including control, joint cooperation, service, and advice.⁸ The finance division should make use of all of these.

The finance division should concern itself with local government organization for financial administration, accounting, budgetary control (including purchase and payment procedures), reporting, pre-auditing, and post-auditing. Two additional areas of financial administration which have

⁸Wylie Kilpatrick, State Supervision of Local Finance (Chicago: Public Administration Service, 1941), p. 46.

typically received particular state attention should also be included. These are revenue administration and debt administration. The operations of the division would be facilitated by breaking it down into specialized subdivisions. The suggested subdivisions are (1) accounting and budgeting, (2) auditing, (3) reporting and research, (4) debt administration, and (5) assessed valuation.⁹

Inasmuch as the major task of implementing the various financial administration recommendations which follow should be left to the finance division, and as much of the work is specialized, it should be supplied with sufficient funds to permit the assembling of a professional staff capable of accomplishing the task. The state-local government commission and its subdivisions should be given adequate authority to prescribe financial administration procedures to be followed by the local governments, and to carry out its responsibilities as directed by the legislature.

Local government organization-general considerations

Organization is equally important at the local unit level. The recommendations of the Committee on Auditing Procedure of the American Institute of Certified Public

⁹A less desirable alternative might be to put number (5) function under the jurisdiction of the state tax commission or equivalent body, and to place the remaining activities under the jurisdiction of the department of the treasury or the state department of audit and control or equivalent department.

Accountants as expressed in their publication, Internal Control,¹⁰ are pertinent to the discussion at this point.

The Committee stated:

The protection which a properly functioning system of internal control affords against human weaknesses is of paramount importance. The check and review which is inherent in a good system of internal control reduces the possibility that errors or fraudulent attempts will remain undetected for any prolonged period and enables management to place greater confidence in the reliability of the data.

The term "internal control" was defined by the Committee as:

. . . the plan of organization and all of the coordinate methods and measures adopted within a business to safeguard its assets, check the accuracy and reliability of its accounting data, promote operational efficiency, and encourage adherence to prescribed managerial policies.

The statements of the Committee are clearly as applicable to governmental operations as to the operations of a private business concern. Much of the material which follows, while not based directly on the recommendations of the Committee, nevertheless is consistent with and supported by those recommendations. This can be seen in particular by comparing the four characteristics of a satisfactory system of internal control, as seen by the Committee, with

¹⁰American Institute of Certified Public Accountants, Committee on Auditing Procedure, Internal Control (New York: The American Institute of Certified Public Accountants, 1949), p. 6.

the discussion of organization which follows immediately and with the subsequent discussions of the tools and techniques of financial administration. The four characteristics are:

A plan of organization which provides appropriate segregation of functional responsibilities.

A system of authorization and record procedures adequate to provide reasonable accounting control over assets, liabilities, revenues and expenses.

Sound practices to be followed in performance of duties and functions of each of the organizational departments, and

A degree of quality of personnel commensurate with responsibilities.¹¹

Inasmuch as financial administration cannot be divorced from general administration, it is necessary first to consider what form of local unit government would offer the best opportunity for the development of a sound financial organization. This is a question with regard to which the weight of authority is quite clear. The strong-executive form is administratively strongest and lends itself best to the achievement of operating efficiency. It also is the form most conducive to the development of coordinated financial administration.¹²

¹¹Ibid.

¹²See National Municipal League, Model County Charter (New York, The National Municipal League, 1956), pp. xxvii, xxviii, including footnotes. See also The Advisory

The term "strong-executive" does not refer to any single official or to any particular method of choosing the executive. It refers, rather, to an administrator in whom the principal executive duties are centered. It may be applied, for example, to the city manager or to the county manager in the cases of council-manager government or commissioners-manager government, to the mayor in the "strong mayor" form of government, or to the chief administrator in the so-called "CAO" or "Chief Administrative Officer" form, which differs from the manager plan largely in that the administrator is not given authority to appoint subordinates.

As to the manner of selection of the executive, he might be appointed by the governing body or elected by the citizens of the unit. It seems quite clear, however, that the most desirable arrangement would permit the electorate to express their collective wishes through the election of the governing body, and would permit the governing body to select its administrative agent. The chief administrator, in other words, should be appointed by, responsible to,

Commission on Intergovernmental Relations, State Constitutional and Statutory Restrictions Upon the Structural, Functional, and Personnel Powers of Local Government (Washington, The Commission, 1962), pp. 69, 70, and Clarence E. Ridley and Orin F. Nolting, Check List on How Cities Can Cut Costs (Chicago, The International City Managers' Association, 1949).

and serve at the will of the governing body. The administrator, in turn, should have the power to appoint or to remove the principal departmental officials through whom he must carry out the broad policies set by the governing body.

It should be observed that neither the "strong mayor" form of organization nor the CAO form fully meet the recommendations of the preceding paragraph. The "strong major" form is deficient in that the administrator is elected rather than appointed. This tends to result in mixing the policy-making function with the administrative function. The CAO form is deficient in the lack of appointive authority vested in the administrator. The weakness of either form may in practice be corrected in substantial part by the governing body, and either may be regarded as acceptable, but a strong preference must be expressed for the council-manager form. The commissioners-manager form is equally applicable to county administration.

The Advisory Commission on Intergovernmental relations has recommended that states make provision for the optional adoption by cities of various forms of government, among which should be included the "strong mayor" form and the "council-manager" form, and has suggested the encouragement of the strong executive forms.

Similar recommendations were set forth with respect to counties.¹³ The strong executive form of administration is so widely preferred by public administration specialists that it seems undesirable to offer any other form as an alternative, except, perhaps, in the case of very small units.

The optional forms of government, which should include only the strong executive forms, can be made available either by statute or by constitutional authorization, but the latter method is less likely to encounter difficulty in the courts. As was suggested with respect to the constitutional home rule provisions, the local governments, upon adopting one of the optional forms of government, should still have the authority to modify its charter on its own initiative in a manner not inconsistent with laws of state-wide application and not inconsistent with the objectives of the strong-executive forms.

The interrelationship between general administration and financial administration within the organization was emphasized in Municipal Finance Administration. The components of administrative management were identified as

¹³ Advisory Commission on Intergovernmental Relations, State Constitutional and Statutory Restrictions upon the Structural, Functional and Personnel Powers of Local Government (Washington: The Commission, 1962), pp. 69-71.

planning, organization, direction, and representation of the administration. Financial administration was described as an inseparable and indispensable element in each of the components.¹⁴

An organization, if it is to function in the most efficient manner, must first identify its goals and objectives. It must then determine the means by which it will pursue its goals, and must develop an administrative organization designed to conduct efficiently the specific activities necessary to accomplish the goals. It must then develop financial plans in the form of budgets, a set of accounting records designed to record the financial and statistical (or work measurement) efforts and accomplishments, and a system of reports to set forth the results. To be fully effective, all of the latter must follow the pattern set by the administrative organization.

The parallelism between organization, budget, accounting structure, and reports suggested above is the basis for responsibility accounting. Responsibility accounting requires that the responsibility for accomplishing each type of activity be assigned to some particular organizational position. For example, the preparation of

¹⁴International City Managers' Association, Municipal Finance Administration (5th ed.; Chicago: The Association, 1955), pp. 3-8.

tax bills might be made the responsibility of the chief of the assessment and billing section of the local unit finance department. Each activity to be carried out should be similarly assigned to some position (not to persons). The incumbent in each position should then be made responsible for the duties assigned to that position.

To implement responsibility accounting fully, the budget must be prepared so as to authorize funds for each activity, such as the tax billing activity suggested above. The amount appropriated for each activity should be based on an anticipated volume of work to be performed, such as, in our illustration, the number of tax bills to be prepared. (The number of bills may be an inadequate measurement of the work load, but will do for an illustration.)

Having identified activities and provided funds for them, based on anticipated work loads, it is necessary to accumulate information as to actual performance. This requires the establishment of accounting records in which the amounts expended for each activity are identified and accumulated, and in which the volume of work actually accomplished is measured. The number of bills actually prepared would be the desired quantitative information in the tax billing activity.

Finally, the reporting system must include regular and frequent comparisons of the funds authorized for specific

activities and the anticipated work loads with actual expenditures and work loads for the same activities.

All of these points will be explored more fully in later sections, but must not be overlooked in any discussion of desirable administrative organization.

The assignment of responsibility for particular activities in an organization should first be planned in terms of broad goals, often referred to as "functions." For example, public safety, health, and highways, are some of the functional categories in the Standard Classification of Municipal Accounts.¹⁵ The responsibility for each such function should be assigned to some organizational position.

The extent of breakdown below the functional level will vary with the size of the unit and with other factors, but the lines of authority should be clear, and should run from the position responsible for the function down through all of the activities and subactivities. Similarly, the budgetary plan and the accounting records and reports should be organized along function, activity, and subactivity lines.

Local government financial organization

The organization for financial administration should be derived from the needs of administrative management,

¹⁵National Committee on Governmental Accounting
(Chicago: Municipal Finance Officers Association, 1953).

while at the same time keeping in mind the fiduciary or stewardship requirements of governmental organizations. For efficiency in operation, it should be centralized under a finance director or the equivalent thereof. The director, in turn, should be appointed by and responsible to the chief administrative officer. To the maximum extent possible, all financial activities should be channeled through the one finance department. This does not mean that the finance director should exercise control over functional aspects of all activities, but rather, should serve in a staff capacity, and provide the requisite financial procedures, forms, reports, etc., necessary to the management and reporting of financial affairs.

To carry the plan of organization just one step further, there seems to be substantial agreement that the finance department itself should be organized, on a functional basis, into divisions or bureaus. The groupings as presented in the illustration below are representative of the weight of authority, although there are, of course, some modifications which would probably be quite acceptable.

The internal organization of the finance department of a local unit should be designed in such a way as to separate the recording of transactions from the handling of cash or the custodianship of assets. The duties should be so divided that no one person controls all aspects of a

transaction. The groupings presented in the illustration and discussion below are designed to meet these requirements.

The recommended sections include accounts, assessments and billing, purchasing, and cashier. The budget officer may be in the finance department but only in terms of location. He should be responsible directly to the chief administrative officer, and may be located in the finance department for convenience in access to the accounting records. It is perhaps more accurate to consider the budget officer in a liaison position between management, operating departments, and finance. It should be pointed out, however, that the budgetary accounts fall under the jurisdiction of the accounting section and the director of finance.

Responsibilities of the sections

Governing body.--The governing body has the responsibility of setting the goals of the local unit and of choosing the means of achieving the goals. The principal financial aspects of the policies of the governing body are set forth in the budget. In their analysis of the budget proposals, they must weigh various activities against each other and must direct the emphasis of the unit toward those which they consider most important or most pressing. Among other things, they must often make the decisions between current financing and debt financing, approve or disapprove

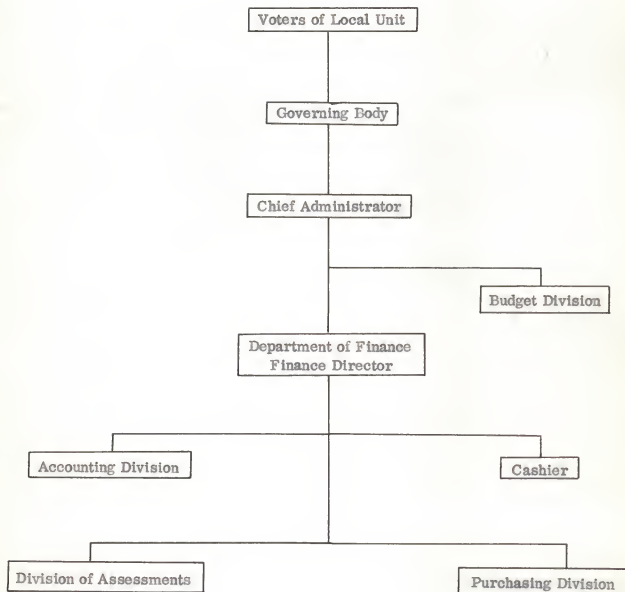


Fig. 1--Organization Chart, Department of Finance

major capital outlays, set tax rates, and in general, establish a policy framework for the guidance of the chief administrator.

The chief administrator.--It is the function of the chief administrator to represent the governing body and to direct the governmental organization toward the goals and along the paths chosen by the governing body. His responsibilities with respect to finance include the administrative supervision of the budget to assure compliance with the plan approved by the governing body as well as the preparation of the budget proposals each fiscal period. In both tasks he is assisted by the budget officer and/or the finance director.

Finance director.--The primary responsibility of the finance director is to supervise and coordinate the activities of the various sections within the department and to direct them toward the over-all goals of the department. More specifically, it is his responsibility to determine what reports and information are needed and when they should be available, and to direct the accounting section accordingly. He must also be prepared to analyze and interpret financial information relating to the unit and to discuss it with the chief administrator, the governing body, or others. It is also his responsibility to see that financial practices and procedures prescribed by the state

division of local government finance and the local unit's governing body are being followed both within and without the finance department, and in general to review all finance activities.

One additional and important continuing duty is to work with the budget officer in preparing and supervising the budgets of the unit. This may, from time to time, require him to assist in the planning and handling of bond or note issues.

Accounting.--The accounting section should be responsible for the preparation of periodic or special financial and statistical reports showing the status of the various funds and analyzing their operations. These reports should include both financial information and measurements of work accomplished. Accordingly, the section must adopt and maintain a suitable chart of accounts and such ledgers, journals, and other materials as will facilitate the reporting function.

A second major responsibility of the accounting section is the maintenance of the operating and asset control systems. Included in this category are the maintenance of the budgetary accounts, both financial and non-financial, and the design and maintenance of records and forms. The system should permit the establishment of responsibility for all assets, control the incurrence of

obligations, and disclose the status of assets, liabilities, and surplus. The records necessary for proper, responsible accounting, as discussed earlier, are included in this requirement.

The third major responsibility of the accounting section is the conduct of the internal audit functions. This should include, for example, the reconciling and proving of cash balances, the examination of detailed receivable accounts and comparison with control accounts, pre-auditing of transactions, and various other activities.

Assessments and billing.--The principal function of this section is to assure the local unit that all funds accruing to the unit are properly and promptly billed to those responsible for payment. The scope of this responsibility should include all charges for taxes, assessments, utility services, sale of materials or other assets, privilege licenses, and any other billable charges.

The importance of the separation of this function from the collection function must be stressed. It provides the means by which an independently computed figure for the accountability of the collectors may be determined with respect to the major items of receipt.

The assessments and billing section must, of course, supply the accounting section and the collection section of the cashier's office with the information necessary for

recording the amounts billed and for proper collection procedures.

Purchasing.--The purchasing section should be responsible for the application of proper purchasing procedures, such as the obtaining of competitive bids, the required use of written purchase orders, designating carriers and routing, preparing standard specifications, maintaining lists of approved suppliers, maintaining files of catalogues and price lists, etc. The section should be responsible for receiving and handling procedures related to goods purchased, and in many cases for the storage and maintenance of inventories of consumable supplies.

Cashier.--The duties of this section include the collection, depositing and safeguarding, and paying out of the funds of the unit. For internal control purposes, all receipts are subject to forms and procedures control and audit by the accounting section. Payments should be made only by checks originated in the accounting section. Bank reconciliations and cash proofs should also be by the accounting section rather than by the cashier.

Budget.--Although the budget officer may, in some cases, be directly responsible to the chief administrator rather than to the finance director, the duties to be performed are distinctly a part of financial administration. In many cases, these are performed by the finance director.

The functions of the budget officer are to act as agent of the chief administrator in assembling information for the preparation of the budget, in reaching decisions relative to budget requests, and in administering the budget during the operating period. These constitute continuous activities, both in the execution aspect and in the planning aspect.

Included among the specific activities should be work measurement studies aimed at developing performance budgeting, organization and procedures studies related to budgetary execution, and the compilation and assembly of budget estimates and assistance in preparation of the budget document.

Implementing the recommendations

Given a desirable organizational structure for the administration and finance of local governments, how can such structure be effectuated? How can the achievement of the standard be encouraged or assured? Because of the diversity of the local units involved, accomplishment of the goal will probably require, or at least be facilitated by, a combination of constitutional and statutory enactments supplemented by administrative action through the state-local government commission, particularly by its finance division, and by local action.

The principal constitutional provisions involved are those suggested earlier, which would permit the local units to choose between optional forms of the strong executive type of organization. Such provisions should permit the legislature to authorize but not to require the adoption of other administrative forms. The optional forms should be specified only in broad outlines in the constitution, and should not include any limitations which would inhibit the achievement of the financial administration standards set forth here. The primary emphasis should be on providing the functional flexibility which is desirable.

The primary legal framework for achieving sound financial administration among the local units should be established by the legislature. First, the legislature should establish the state-local government commission, including the finance division. The finance division should be designated by law as the administrative agency of the state in the supervision of the financial administration of local governments, to the extent of the state's interest therein.

The legislature should also equip the finance division with a set of statutes pertaining to the financial administration of local units and expressing in broad terms the standards which the legislature wishes to set. It should also specifically give the finance division the

authority necessary to issue regulations and directives for the detailed implementation of the statutes, and the authority necessary to encourage compliance with the laws and regulations.

Among other aspects, the statutes should require that each governmental unit shall have a centralized financial organization covering all financial activities of the unit, and headed by an officer appointed by the chief administrative officer of the governmental unit. The chief administrator should be permitted to serve in this capacity.

Additional requirements should be: (1) the preparation and adoption of annual budgets, (2) the maintenance of adequate records, (3) the preparation and publication of annual reports, (4) annual audits to be conducted either by independent certified public accountants or by state appointed auditors, and (5) the requirement that budgets be filed with the finance division before adoption, and annual financial reports be filed with the finance division. Both the budgets and reports should be filed at such times and in such form as may be prescribed by the finance division.

The legislature should also designate a fiscal year to be used by all local government units. Without a uniform fiscal year, the collection and compilation of statistical data regarding local units, as well as any inter-unit

comparisons will be virtually meaningless. The year adopted should be one which corresponds well to the activity cycle of the units so that there will typically be no expenditure gap in the early part of the year; that is, so that early revenues will be more than adequate to cover early requirements. The calendar year is probably not a good fiscal period because it usually lacks correspondence with the pattern of fiscal activity. The use of a calendar year fiscal period also creates an unnecessary conflict with the year-end rush typical of commercial operations in securing the services of a C.P.A.

The finance division staff should prepare and distribute manuals and other educational and illustrative materials explaining the legal requirements and the proper techniques for applying them. In addition, they should make technical services available to any unit needing help in complying with the requirements. As an administrative agency the division would be required to issue regulations and instructions relating to subjects under its jurisdiction.

Summary

The purpose of the chapter has been to identify at both the state level and the local level standards relative to organization for financial administration which would be consistent with the goal of achieving a high level of performance in the financial affairs of the local units.

The standards set forth have been those which have received wide, though perhaps not unanimous, acceptance among authorities in the field of public administration.

The proper constitutional, statutory, and administrative framework to be established by the state was considered, and it was concluded that the principal contribution of constitutional provisions should be the authorization of adoption of optional forms of the strong-executive type of local organization.

With respect to statutory requirements, it was recommended that the state provide for the adoption of a uniform fiscal year, and require the units to adopt and publish budgets, maintain adequate records, prepare and publish annual reports, and have annual audits by certified public accountants or state-appointed auditors. The statutes recommended would also require each unit to establish a centralized financial organization covering all activities of the unit.

In order to encourage compliance with constitutional and statutory requirements and to assist the local units in numerous ways, the establishment of a broadly representative, two-level, state-local government commission was recommended. Primary concern was with a proposed lower-level subdivision of the foregoing agency to be known as the division of local finance, or in short, the

finance division. An appellate procedure permitting local officials to appeal from decisions of the finance division was suggested. The appellate body would be the "state-local government commission."

It was proposed that the detailed implementation of the constitutional and statutory requirements be the responsibility of the finance division and that it be given authority to issue and enforce regulations for this purpose. In addition to regulations, the division should prepare and distribute manuals and other educational materials and make various technical advisory and other services available to the local units.

With respect to the organization of the local units, it was recommended that the strong-executive form of organization be considered the standard, and the council-manager or commissioners-manager forms were identified as the preferred forms.

Internally, the financial affairs should be centralized under the administration of a city-wide or county-wide finance department. The finance department, in turn, should be broken down into functional divisions under the supervision of the finance director to achieve the proper division of duties and internal control, as well as specialization. The divisions recommended were accounting, assessments and billing, purchasing, and cashier. The budget director was

regarded as an administrative assistant to the chief administrator.

In addition to the internal organization of the finance department, the inter-relationship of finance to administrative organization was stressed. It was stated that the administrative organization should be designed to identify responsibility for operating efficiency with particular organization units. The budget, accounts, and reports must be similarly organized so that the extent of efforts toward particular objectives could be compared with the success in reaching the objectives. Success or failure, in turn, may be traced to the responsibility centers and to the persons responsible. Financial figures should be supported by work measurement information wherever feasible.

It was suggested that the standards could best be implemented by a combination of constitutional and statutory enactments and administrative supervision. The principal constitutional provisions involved would permit newly incorporated units or existing governmental units desiring to change their form of organization to adopt one of the optional forms of strong-executive government. They would also permit local governments to modify their charters on their own initiative in a manner not inconsistent with laws of state-wide application.

The statutes should express in broad terms the minimum standards which the legislature wished to establish and should give the administrative agency sufficient authority to encourage compliance with the standards. A number of specific statutory requirements were recommended, and it was suggested that the finance division of the state-local government commission distribute manuals and engage in other educational and administrative activities designed to facilitate compliance by local governments.

CHAPTER III

STATE SUPERVISION OF LOCAL GOVERNMENT DEBT AND TAX ADMINISTRATION

The topics of state supervision of local government debt and state supervision of local tax administration are in many respects aspects of a common problem. In connection with taxes, the two principal subjects for discussion will be constitutional or statutory tax rate limitations and administration of assessments. Similarly, some questions relative to constitutional or statutory debt limitations and state supervision of local government debt issues and debt service will be considered.

A brief outline of the standards to be discussed in this chapter follows:

- I. Property tax administration
 - A. Tax limitation laws
 - 1. No constitutional provisions
 - 2. No rate limitations
 - 3. If rate limitations used
 - B. Assessment of property
- II. Debt administration
 - A. No constitutional provisions
 - B. Statutory limits
 - C. Supervision by division of local government finance

A more detailed outline of the standards may be found by reference to Appendix A. A discussion of the standards follows immediately.

Tax limitation laws.--State constitutional or statutory limitations on the rate of taxes on property or on the amounts which may be raised by property taxes have been rather generally discredited, and the position taken here is that no such limitations should be imposed by the state.¹ In recognition of the present extensive use of such limitations, and their long history, however, it is probably realistic to recommend also the least undesirable approach to such limits.

The primary indictments of tax limitations are that: (1) they are not flexible enough to meet the highly diverse needs of local governments; (2) they are usually related to an undesirable base, the local assessed valuation of property; (3) they encourage the proliferation of taxing districts; (4) they tend to encourage long-term borrowing to meet needs which might be partially met on a pay-as-you-go basis; and (5) they often apply selectively so that some functions may be generously provided with funds while others of equal merit receive inadequate funds.

In recognition of the foregoing and other problems, the standard recommended is that property tax limitations,

¹ See the Advisory Commission on Intergovernmental Relations Report, State Constitutional and Statutory Restrictions on Local Taxing Powers (Washington, D.C.: The Commission, 1962).

if any, be imposed by statute rather than by constitutional restriction. The basis of such limitations should be state equalized, full-value appraisals of all taxable property.

The creation of new independent taxing authorities should be prohibited, and the taxing power restricted to counties, cities and towns. This is not to say that there should be no taxing districts within a county or city, but that the rates of each district should be considered part of total tax rate of the city or county within which the district lies. The limit would apply, then, to all overlapping districts within the county or all overlapping districts within the city or town. A maximum rate should be established for the cities and towns and a separate rate for the counties so that the overlapping of county taxes would not affect the city's taxing ability and vice versa.

The rate limitations should be applicable only to the total tax levy, and not broken down into restrictions on levies for particular purposes. The recommendations herein are not intended to apply to school districts or to school tax levies which have been excluded from consideration in this study.

The tendency of tax rate limitations to encourage long-term borrowing will be dealt with in the debt administration section. The problem of inflexibility may be

attacked from two points of view. The approach most consistent with local self-government is the provision that taxes in excess of the limit may be assessed upon the affirmative vote of a majority of those voting in an election held for that purpose. The state's local finance division might be given authority to establish standards for the holding of such elections to assure a true expression of the will of the people.

The alternative to submission of the proposed excessive rate to the voters would be to authorize the division of local government finance to approve rates above the statutory limit, subject to such rules or restraints as the legislature might wish to impose. This would introduce flexibility and would be less expensive than the referendum.

The use by local governments of taxes other than the property tax must be restricted to some extent by the state. Many are not readily suitable for local application and must be state-administered for reasons of efficiency. Others must be state-regulated for the protection of persons or businesses who might otherwise be subject to multiple or discriminatory taxation, or for other policy reasons. There is, of course, no reason why state administered taxes may not be shared by local units. No attempt will be made to select detailed standards in this area.²

²See the discussion of these taxes in the Report of the Advisory Commission on Intergovernmental Relations, Ibid., pp. 9 ff.

Assessment of property.--The state has an interest in the assessment of property for a number of reasons, although they may not all be applicable to any particular state. Probably the most fundamental of these is the concept that justice demands equal treatment for all taxpayers. If the state imposes a property tax, it is desirable to distribute the burden so that it falls with equal weight on all properties of equal value. Similarly, the distribution of state grants-in-aid or state collected, locally shared taxes creates a state interest in the assessments of the various local governments if assessed valuation is a factor in the sharing formula.

Two additional subjects of state concern are the proper application of tax rate limitations or debt limitations which are based on assessed valuation, and the accumulation of meaningful statistics regarding valuations, revenue potentials, debt burdens, or other points of interest.

The assessment of property should provide for equal assessment of properties of equal fair market value as between taxpayers in all parts of the state, as between classes of property, and as between taxpayers within any taxing jurisdiction. Experience has shown that this goal is seldom if ever achieved in practice. The logical basis for attaining the desired equality is the assessment of all

properties at 100 per cent of present value in all areas. It is possible that full value assessments could be accomplished by a centralized assessment procedure conducted by the state supervisory agency (the assessments subdivision of the proposed state-local government commission), and a very strong case can be made in support of assessment by the state. It is assumed in the discussion which follows, however, that assessment will continue to be a joint concern of the local governments and the states, with the state exercising its influence through the media of legislative prescription and administrative supervision.

Leading authorities in the field are of the opinion that a standard of 100 per cent of present value for assessments by local authorities is unrealistic and impractical. It is suggested that the states refrain from prescribing a fixed assessment ratio and substitute a minimum level of tolerance for assessment ratios. "Assessment ratio" means the ratio between the average level of assessed values in an assessment district to market values in the district. The supervisory agency should make annual studies in all districts, using scientific sampling and statistical techniques to determine both the fair market values of properties, and the ratio of local assessments to fair market values. Local governments should be free to set their own levels of assessment so long as they equal

or exceed the minimum level of tolerance established by the legislature. A minimum level of tolerance in the range of 65 per cent to 85 per cent is suggested by the author.³

The information obtained by the assessments subdivision in the course of its ratio studies and supervisory activities, including prescribed reports from the local governments, should also be used to determine the tax base of each local government at 100 per cent of fair market value. The state-determined, and thus state-equalized, tax base in each governmental unit should serve as the basis for determining the limits set by any tax rate restrictions, debt limits, or other state-prescribed limitations. It should also serve as the basis, to the extent that assessed valuations have served in the past, for distribution of state grants-in-aid, state collected, locally shared taxes, or for other similar purposes.

The state supervisory agency should assess the properties of railroads, public utilities, or other organizations having state-wide or inter-state activities, or activities extending into several taxing jurisdictions. The assessments, at 100 per cent of present value, should then be certified to the various local units according to

³See Advisory Commission on Intergovernmental Relations, The Role of the States in Strengthening the Property Tax (Vol. 1; Washington, D.C.: The Commission, 1963), pp. 7-25.

the portions of the value of properties within their taxing jurisdictions. The need for such treatment arises as much from the technical problems of valuation as from differential assessing procedures by various units.

State supervision of the assessment process should begin with the prescription by the state of assessment procedures and techniques, including assessment forms, records, and reports. This function should be the responsibility of the state's division of local government finance.

Assessment should be carried on exclusively by the counties. In most states, all property is located in some county, therefore, the coverage of county-wide assessment is complete. In the case of very small counties, joint action by two or more counties may be desirable. All property within cities or towns is also within the counties, and therefore included in the county assessment. There is no logical reason why the value which is used for county purposes may not also serve the cities and towns, provided that assessment at no less than the state's minimum level of tolerance is achieved.

The assessment of property calls for technical skills rather than political astuteness. Therefore, the tax assessors should be appointed rather than elected. In the organization suggested earlier in this chapter, the assessor would be a specialist in the department of finance of the

county. It would not be necessary to have assessors, as such, in the cities and towns. However, the assessments and billing section of the city or town finance department should be responsible for working with the county assessor to determine which properties should be included on the city or town tax rolls.

With respect to the qualifications of assessors, the state should establish standards for such positions, and only assessors having state licenses should be permitted to hold county assessor positions. Licensing should be based on an examination and on standards of preparation similar to those applicable to other occupations requiring technical qualifications.

Property values are not fixed over time, and assessments which are accurate at one time may gradually become more and more inequitable. It is essential, therefore, to provide for regular periodic reassessments of all properties in each county. A reassessment cycle of six to eight years is suggested. In addition, provision should be made for reassessment of properties for new construction or other factors tending to change the value of individual properties.

The state should have relatively little difficulty in achieving adequate local assessments if qualified assessors are used at the county level. Even if this is accomplished, however, there may be differences of opinion,

technical problems, or even deliberate disregard of prescribed procedures. It would be advisable to establish a specialized group within the state's finance division to deal with such problems. The assessed valuation subdivision suggested earlier should assume these responsibilities.

The assessment personnel in the assessed valuation subdivision of the state's finance division should have authority to review local assessments upon request from any citizen or official of any local government. In the case of an individual citizen, the most probable basis for an appeal would be a disagreement as to the value of his property. In the case of an official, the entire level of assessment or some large segment thereof might be brought into question. The state personnel should have sufficient authority to deal with either situation.

Briefly, the assessments subdivision should have the authority to (1) equalize over all assessment levels between counties, that is, to bring laggards at least up to the minimum standard, (2) equalize assessment levels as between classes of property, and (3) equalize assessments between individual pieces of property of equal value. The basis on which exemptions from property tax should be granted should be established by statute, and the assessment personnel should administer the statute. They should also have authority to add to the tax rolls any property

improperly omitted, and to bring about the assessment of any county wilfully failing to comply with either the state minimum level of tolerance for assessments, or the state periodic reassessment statute.

The work of the assessments subdivision of the state's finance division should be conducted by administrative tax specialists. Local citizens, officials of others, should have the right to appeal from decisions of the assessments subdivision or any other activity of the finance division. Such appeals should be to the broadly representative state-local government commission.

The rendering of tax bills is a proper function of the local government's finance department, billing and assessments section. The collection of taxes should be by the local government's finance department, cashier's section. Both are discussed in the next chapter.

Constitutional or statutory debt limitations.--As stated earlier, there should be no constitutional limitations on the amount of debt which local governments may incur. It is appropriate, however, to place constitutional prohibitions in the way of incurring debt for non-governmental purposes or for the benefit of private individuals or concerns.

Statutory limitations have been criticized by many authorities, including the Advisory Commission on

Intergovernmental Relations,⁴ but it appears unlikely that they will be abandoned in the near future. The recommendations which follow are designed to meet most of the major criticisms within a statutory control framework.

Statutory debt limits should be expressed as a percentage of fair market valuation. The market valuation base used should be equalized statewide at 100 per cent of present value, as discussed in the preceding section. The debt limit rate set by statute should be relatively low, in the sense that it would limit debt incurrence to an amount which could reasonably be expected to be supported by property taxation. Within the limit, local units should be free to incur debt without need for further authorization except, perhaps, local referenda.

The debt limit provided should apply to all forms of long-term obligations, including the so-called "self-supporting" bonds or revenue bonds. It has often been pointed out that a governmental unit has a practical responsibility for even non-guaranteed debt because default on such debt would damage the unit's credit. It is reasonable, therefore, to include such debt within the limits.

⁴ Advisory Committee on Intergovernmental Relations, State Constitutional and Statutory Restrictions on Local Government Debt (Washington, D.C.: The Commission, 1961).

The use of revenue bonds tends to restrict the ability of a local government to meet its general obligations because it removes an often important source of general funds. Revenue bonds frequently restrict revenues beyond the real debt service requirements on such bonds. The capacity of the unit to issue additional general obligation debt is thereby reduced more than it would be reduced by a similar amount of general obligation bonds. In addition, the costs of revenue bond financing are usually higher than costs of general obligations.

No special districts should be permitted for debt incurring purposes insofar as the debt limit is concerned. As recommended with respect to tax limitation laws, the only units permitted to incur debt should be either cities and towns or counties. Any special districts should be treated as part of the cities and towns, or if outside the municipal limits, as part of the counties, for purposes of computing the amount of debt which might be issued. All such special districts should be under the administration of either city or town authorities or county authorities.

It may be well to re-emphasize at this point that schools are outside the scope of this study, and the recommendations with respect to district limitations for assessment purposes or debt purposes do not apply to school districts.

Statutory and administrative control must also be exercised over the issuance of short-term notes. Revenue anticipation notes should be limited to some proportion of the current year's tax levy and should be payable not later than the end of the fiscal period. A limit (admittedly arbitrary) of 50 per cent of the uncollected balance of the levy as of the date of issuance of the notes is recommended.

Bond anticipation notes should be permitted only after all the requirements for the sale of bonds have been met. The statutes should provide a reasonable limit on maturities of such notes, such as five years, and should require the direct application of the proceeds of any of the related bonds sold to the retirement of any bond anticipation notes outstanding at the time of sale of the bonds.

Administrative supervision.--All of the recommendations to this point depend upon statutory enactments, and have the drawback of inflexibility so often criticized. The desired element of flexibility may best be introduced through administrative supervision. All of the above statutory requirements should be made specifically the responsibility of the state's division of local government finance. Responsibility alone is not enough, however, and the division must also be given authority to ameliorate the harshness of the statutes. Some suggestions regarding the

duties and authority of the local government finance division follow.

The local government finance division should be given the authority to permit the issuance of bonds in excess of the statutory limit when in its opinion the circumstances warrant. The finance division should be directed to satisfy itself with respect to two requirements, (1) that sufficient revenues from both property tax and non-property tax sources may reasonably be anticipated over the term of the proposed issue to provide safely for presently outstanding debt plus the proposed new debt, and (2) that the net interest cost would not exceed some predetermined ratio of the current yield rate on the highest grade of municipal securities.⁵

The net interest cost test would necessarily have to be applied upon opening the bids for the bond offering. It would simply prohibit the awarding of the bonds to any bidder whose bid would result in a net interest cost in excess of the legal maximum. The net interest cost limit must necessarily be variable as conditions in the money market change, and therefore cannot be prescribed by law

⁵See the discussion of net interest cost limitations in The Advisory Commission on Intergovernmental Relations, State Constitutional and Statutory Restrictions on Local Government Debt (Washington, D.C.: The Commission, 1961), pp. 79 ff.

as a specific rate, but must be left to the administrative agency. As a consequence, it is essential to the proper working of the limit that the awarding of the bonds be under the supervision of the administrative agency.

The view often asserted by authorities on public administration that laws are not self-enforcing is certainly true in the field of debt administration, although it must be admitted that some of the policing of the laws is done by the bond attorneys and bond buyers. Nonetheless, administrative supervision of the entire long-term debt process is most desirable. It is believed that the soundest basis for such supervision could be provided through the centralized sale of all local government long-term debt offerings.

The sale of local government debt offerings by the administrative agency should include bonds or notes either within the fixed debt limit or in excess of it. With respect to debt within the limit, the function of the agency should be to advise and assist the local unit in planning the offering and in the technical details of marketing it. The only controls to be exercised would be review for compliance with procedural requirements, such as the preparation of an offering notice containing at least certain minimum informational material.

Applications for authorization to exceed the debt limit should be reviewed by the administrative agency (the state's local government finance division) and the local government officials should be notified promptly of the agency's decision. All issues in excess of the limit should require approval by the voters. In the event that the application should be denied, the local unit should be given the right to appeal the decision to the state's local government commission.

If any local government, after receiving an unfavorable decision from the local government commission, should wish to sell the securities, the question should be submitted to the voters of the local unit. It should be required that the official findings of the local government commission be given full publicity in the local unit along with the submission of the proposal to the people. Standards for such publicity should be administered by the state's local government finance division. A favorable vote by the local citizens would constitute the authority to issue the securities.

In addition to its advantages in administering the legal requirements, the sale of local unit securities by a central agency has very substantial advantages in making specialized skills available to all local units, providing a single market which tends to focus more attention on all

issues, increasing the scope of contacts with potential buyers, and in reducing the costs of selling securities.

A state administrative agency may render a number of other services with respect to local government debt. One important area where flexibility may be introduced is in the choice between term bonds and serial bonds, and in the maturities of either term or serial bonds. The state by statute may set a requirement that all bonds be issued in serial form, and may specify the maturities according to the nature of the improvements financed or some other basis. The maturities in such case should be set low enough to assure prompt debt retirement and recovery of borrowing capacity. The limits thus set could constitute prima-facie authority to the unit to adopt such limits. Flexibility may then be achieved by permitting the local government finance division to authorize the use of term bonds when applicable, or to modify the serial payment requirements to meet particular circumstances.

The state's division of local government finance should maintain complete files on the debt of local units, as well as the budgets (including long-term plans) and the financial statements of the units. Such files should be kept up to date and should be used to remind local units of approaching principal or interest maturities, and should serve as the basis of annual state-wide summaries of local unit finances.

Briefly stating the role of the state administrative agency, it should serve as a source of advice and guidance to local government officials, as a review agency to assure compliance with the laws, and as an agency for the collection and dissemination of information for many purposes. It should introduce an element of flexibility into otherwise rigid statutory provisions, and should serve as a central point of contact between the money market and the many local governments which make up the state.

Summary

In this chapter, two areas of special interest in the field of state-local relationships were discussed. The two topics are debt administration and tax administration. It was concluded that in each field, a framework of statutory standards and requirements should be enacted for the guidance of local officials and the local government finance division of the state-local government commission. The desired element of flexibility should be introduced into the structure by authorizing administrative modification of the impact of the statutory provisions.

It was recommended that no statutory tax limits be imposed, but recognizing the improbability of achieving this recommendation, it was suggested that the local government finance division of the state-local government commission

be authorized to approve levies above the limit when justified. Extensive supervision of the local assessment process was also recommended.

Similarly, it was suggested that the finance division be authorized to approve debt issues above the debt limit.

Finally, it was recommended that the sale of all long-term debt instruments of the local units be executed by the finance division.

CHAPTER IV

BUDGETARY PLANNING, ACCOUNTING, AND CONTROL

The organizational structure of a governmental unit provides a framework within which to conduct its financial affairs. The day-by-day operation of the system depends, however, upon the tools and techniques of financial administration. Foremost among the tools and techniques to be used are budgetary control (including purchase and payment procedures), accounting, reporting, and auditing. These tools and techniques will now be examined, in the order given, in this and the following chapter, to identify a set of standards which may be applied in further evaluating the status of local government financial administration in a given state. A brief outline of the topics to be discussed in this chapter follows immediately. A more detailed outline may be found in Appendix A.

- I. Budgetary planning and control
 - A. Program or performance budgeting the standard
 1. Definition of objectives
 2. Examination of alternative routes to objectives
 3. Identification of potential sources of funds to finance outlays
 4. Adoption of a plan
 5. Execution of the plan
- II. Accounting and related procedures
 - A. Centralized under a finance director - unit-wide jurisdiction

- B. Use of fund accounting
 - C. Double entry accounting
 - D. Standard classifications of accounts, state-wide
 - E. Enterprise accounting on commercial basis
 - F. Modification of accrual basis for general accounting
- III. Accounting and internal control, special areas
- A. Assets, general considerations
 - B. Application of above to selected assets
 - C. Liabilities
 - D. Surplus

Budgetary planning and control

A governmental organization is an economic unit and is faced with many of the same problems which face other economic units. Primary among these are the allocation of scarce resources among various alternative possible uses, and the efficient utilization of resources toward the selected objectives. Most of the other problems are derived from these. Officials of a governmental unit must consider also the "right" allocation of resources between the governmental and the private sectors of the economy. The administrator and the governing body must necessarily, implicitly if not explicitly, form an opinion as to the views of the electorate on the subject, and must make decisions based upon such opinion. The preparation of a budget as a systematic process facilitates choosing among alternatives and balancing governmental requirements against the welfare of the private sector.

If the fundamental problems of a government as an economic unit are the allocation of resources among alternative uses and the efficient utilization of resources, it follows that the budget system most conducive to efficiency and to satisfactory allocation is the appropriate one to be used. This, in turn, leads to the inescapable conclusion that on both points the program or performance budget should be the standard.¹ Without attempting a full exposition of program budgeting, a brief description of the salient features is presented below.

The first requirement of program budgeting is a clear definition of the objectives of the unit and of the programs which have as their goals the achievement of the objectives. For example, the protection of the health of members of the community might be regarded as an objective. This, however, is too broad to be very useful for planning or management purposes and it is necessary to define objectives more narrowly. In the example given such refinement might include a breakdown of the health protection goal into activities, such as control of communicable

¹See Frederick C. Mosher, Program Budgeting: Theory and Practice (New York: Public Administration Service, 1954), and International City Managers' Association, Municipal Finance Administration (5th ed.; Chicago: The Association, 1955), Chaps. 4 and 5.

diseases, child health services, adult health services, etc. By this technique the rather indefinite health objective can be translated into more specific activities designed to achieve the objective.

Ideally, this breakdown should be carried down to the smallest identifiable unit which is responsible for directing the efforts of the organization toward a specific activity. This is a cost and responsibility center and is the basis for budgeting and control. The identity of all the small activities or responsibility centers with the related broader activities and functions of which they are a part should be maintained in both the budgetary plan and in the organizational structure to the maximum extent feasible.

Objectives should be defined both from the short-term and from the long-term point of view. That is, for those activities which tend to be continuing over time, the current year activities should always be considered in relationship to long-term plans, and the advantage of an immediate benefit should be weighed against any possible interference with more important long-range goals.

The second requirement of program budgeting is an examination of the alternative means by which the desired goals might be achieved and the selection of those which appear most feasible in the light of all known facts with

regard to costs, timing, and all the other relevant factors. This requires that each relevant alternative way of accomplishing each of the desired objectives be translated into cost terms, broken down by activities as suggested earlier. Some of the questions to be considered are whether to use the unit's own work forces or to contract; to use laborers or machines; to make capital outlays or bear increased maintenance costs, etc. Cost studies should be made of each of these alternatives and from the information thus derived, it will be possible to select the least expensive approach consistent with achievement of the objective.

In developing information about the probable cost of carrying on the various activities, it is necessary to make certain assumptions about the levels and quality of services. All such assumptions should be carefully defined and explicitly stated. For example, the proposed activities under the heading of "streets, new construction" should indicate the types of paving to be done, the areas to be paved, or such other quantitative and qualitative data as might be appropriate. The cost data should be classified into fixed and variable categories so that the probable effects of changes in scale from the original proposed levels can be anticipated.

The range of factors which influence the costs of activities, and which must be taken into consideration in making estimates is indicated by the following list from Municipal Finance Administration:²

- (1) the scope and quality of services provided; (2) the volume of work required to render the services;
- (3) methods, facilities, and organization for performing the work; (4) qualities and types of labor, material, equipment, and other cost elements required by the work volume; and (5) price levels of the various cost elements.

Given the data of proposed activities and potential costs, it then becomes possible to evaluate the budgetary proposals in terms of the programs proposed to be operated and the probable costs of operating them. If, as is commonly the case, it is necessary to reduce the total amount of the proposed expenditures, decisions may be made in terms of the relative importance of the various goals, and adjustments may be made in the extent of efforts directed toward each. This process automatically brings old activities under review each period in addition to focusing attention upon both the nature of and the probable costs of new or expanded activities.

The scope of the budget should be such as to include both current expenses and capital outlays. As stated

²International City Managers' Association (5th ed.; Chicago: The Association, 1955), p. 64.

earlier, the annual budget should be prepared against a background of long-term plans, and should be regarded simply as one installment in a broader plan. The long-term plans must include both current outlays expected and capital outlays planned. The long-term capital plans are often referred to as capital budgets, but the inference that capital budgets are something different from operating budgets should be avoided. They are simply an integral part of the long-term plan, and not a separate problem. It should also be emphasized that capital decisions have a direct bearing on operating costs, and the effect of such decisions should be carefully integrated into the operating portion of the budget.

The third requisite of the budget is the identification of the sources from which the proposed operations and capital outlays are to be financed. Again, the long-term aspect of the expenditure size of the budget requires a corresponding long-term financing plan, with each year regarded as a segment in the larger plan. The matching of all types of expenditure requirements over a period of several years with financing plans covering the same period provides for much better expenditure control and much better planning of financing than is possible if each year is regarded as an independent problem. For example, it makes

possible intelligent consideration of at least partial "pay-as-you-go" financing for capital improvements.

The fourth aspect of program budgeting is the adoption and execution of the plan. As a preliminary to the adoption of the budget, the public should have an opportunity to express its views on the plans of the officials. This suggests a requirement that public hearings be held before final adoption of a budget by the governing body.

The whole process of planning and development of the proposed budget should be scheduled with adequate time allowed for careful consideration of all aspects, including public hearing and with the entire procedure completed and the budget formally adopted before the beginning of the fiscal period covered. An advance copy of the proposed budget should also be sent to the state's division of local government finance for review, as discussed in detail later in this chapter.

It seems almost unnecessary to say that the budget should be balanced in the sense that reasonably realizable resources are provided in an amount equal to the appropriations. However, since the expenditure side of the budget should include all capital outlays, the resources provided may, when applicable, include the proceeds of bonds or notes issued to finance capital outlays.

Two other requirements with respect to the resources side of the budget are suggested as highly desirable. First, the revenues should be budgeted on a cash basis, that is, should include only those amounts expected to be realized in cash during the budget period.³ Secondly, provision should be made for adequate revenues to cover current requirements and to make up any operating deficit from the preceding year, and provision should be made for the repayment during the budget year of any revenue anticipation notes carried over from the preceding period. The repayment should be from a special levy for the purpose in most cases.

The budget should be adopted by formal resolution or ordinance, properly publicized, and recorded in the official minutes of the governing body. It should be subject to change with respect to functional and departmental totals only by action of the governing body, taken with the same formality as the original ordinance or resolution, and similarly recorded in the minutes. The appropriation ordinance or resolution adopted by the governing body should break down the appropriations only to the organizational unit (the cost and responsibility

³Expenditures, however, should be on an accrual basis. (See the discussion of accrual vs. cash basis under "accounting procedures" below.)

center) level. Within the limits thus set, administrative management should have authority to decide as to the specific objects of expenditure necessary to carry out the plan. The plan as formally adopted should include such quantitative measures of expected levels of services as may be feasible.

Allotments.--In order that he may keep the rate of actual expenditures in balance with available cash, and provide for orderly administration, the chief administrator should be given the authority to establish allotments for all departments.⁴

The allotments may ordinarily provide spending authority by quarterly periods, but in the last quarter of the fiscal year it is sometimes necessary to establish monthly allotments. In any case, the allotment for each department for each period should be based on a careful analysis of the needs for that period, and should not be determined by simply dividing the annual appropriation into equal amounts per period.

Budget execution

The execution phase of a budgetary cycle consists essentially of two parts: first, a continuous review and

⁴For good personnel relations it would be best to have department heads submit budgets which would then be discussed and approved in the form of allotments.

comparison of actual results, both revenue and expenditure with the anticipated amounts; and second, corrective action as may be indicated by the evaluation of the comparisons. More broadly speaking, execution consists of the total of activities carried out in accordance with the authorizations and in acquiring the planned resources, but the actual conduct of activities falls within the management sphere. This part of the discussion is concerned with the budgetary process as a means of communication and control to be utilized by management at all levels in striving for the realization of planned goals. The immediate question is, what standards can be identified relative to the budgetary process in this area?

At the heart of the continuous comparison aspect of budget execution are the budgetary accounting records, both financial and statistical. These records bring together the plan and the financial and statistical measures of accomplishment.

Appropriation-expenditure records.--A means of gathering and reporting financial expenditure data should be provided for each activity which is separately identified in the budget plan. Recording and reporting should be by cost and responsibility centers. It is essential that the records of expenditures follow the organizational lines, which, in turn, should be on the basis of functions and activities.

Each appropriation-expenditure account should make provision for recording the amount authorized for the particular activity, the amount of allotments to date, the amounts expended or encumbered to date, and the unencumbered balance. The latter figure represents the amount of new obligational authority remaining to be used for that activity.

Statistical and work-measurement records.--In addition to the financial records, the quantitative and qualitative dimensions of the plan should be recorded. That is, for example, if the program includes a plan to spend one million dollars for paving streets, it should also include a plan for the number of miles to be paved and the type and quality of paving. Whatever the units of measurement, whether they be tons of garbage hauled, number of tax bills issued, or some other, the exact nature of the plan should be recorded for all activities for which measurement is feasible. Approximations or rough indications may have to be accepted for some activities.

Having established a quantitative (and qualitative) measure of the work to be done, provision must be made for the regular and orderly collection of the data necessary to determine what has been done. This requires a system of operational data collection as formalized and as carefully administered as the financial data system. Similarly, the

units for which statistical and/or work-measurement data must be reported are the same responsibility units, the smallest units of organization, for which programmed budget authorizations are provided. For example, if one of the activities for which an appropriation is made is garbage collection, the records must indicate the frequency of collection and volume anticipated, and the data collection system must indicate the actual frequency of collection and volume, or other relevant information.

Unlike the financial aspects of the budgetary system, the work measurement information is not readily generated as a by-product of individual transactions in many cases. It must depend upon a carefully planned system of work reports to be prepared by department heads at prescribed intervals. The work measurement units appropriate for each department should be determined in consultation with the department head. Once the appropriate units have been selected, it becomes the responsibility of the department head to keep records which will disclose the volume, expressed in such units, of work in his department.

Revenue records.--The record system must also provide for continuous comparison of the actual revenues realized to date with the amounts projected in the budget. The revenue records must be maintained in such form as to show the amounts anticipated in the budget, classified by sources,

the amounts actually realized to date, and the amount by which realization to date exceeds or falls short of budget estimates.

As is true in connection with expenditures, any statistical indicators or other information, which is pertinent to the evaluation of the actual results as compared with the planned results, should be carefully accumulated. For example, data on average temperatures or high and low temperatures might be useful in evaluating certain utility revenues; amounts of rainfall would be pertinent to evaluation of water sales; new housing "starts" or similar data might be considered in evaluating inspection fees and revenues from permits, etc.

Budgetary reports.--The final feature of the "continuous comparison" aspect of budget execution is regular and frequent reporting. Reports should be prepared at frequent intervals, at least once each month, comparing appropriations with expenditures and encumbrances to date, and comparing the current period with similar prior periods. The reports should be organized to follow the pattern of functions and activities established by the budget. If the accounting records are properly organized, the reports can be prepared directly from them.

The work measurement portion of the reports should be in the same sequence as the financial portion, and should

show the anticipated work loads as well as the actual work loads. In both the statistical and the financial reports, the amounts and nature of variations from the budget should be emphasized, thus permitting "management by exceptions."

Regular reports should also be prepared comparing revenues actually realized with revenues anticipated and reporting any statistical information pertinent to evaluation of the reports.

"Continuous comparison," as outlined above, provides the information for management action, but of itself functions primarily in the negative sense of preventing certain types of unauthorized actions. The execution of a budgetary plan, however, requires frequent reappraisal in terms of evaluation of efforts made to carry out the original plan and in terms of possible changes in objectives or approaches occasioned by changing circumstances. The appraisals, in turn, must be translated into corrective action as needed to direct the organization toward the fulfillment of its goals.

The budgetary reports must not be permitted to become a meaningless routine. They must be scrutinized carefully by administrative personnel at all levels and evaluated in terms of the responsibilities of the various reviewers. The evaluations, in turn, should be made known to the organization through such media as administrative newsletters,

conferences with group leaders, departmental meetings or such other communications devices as may be appropriate. Any changes in plans resulting from re-evaluations, either of effort or objectives, must be translated into financial and statistical terms as they affect the budgetary plan. The modifications must be recorded in the accounts and communicated to all affected departments.

Two related reporting techniques, which have the status virtually of axioms, also deserve comment: first, as the usefulness of reports is inversely related to the time elapsed between the period covered and the date of their presentation, prompt reporting is essential; and second, the higher the reporting level, the broader and more condensed the information should be; or conversely, the lower the reporting level, the more detail the report should include, and the narrower should be its scope.

Accounting and related procedures

This section is concerned with the procedural aspects of accounting and with certain matters of internal control not discussed elsewhere. The most widely used and most authoritative treatments of governmental accounting procedures and the related reporting and auditing are the works of the National Committee on Governmental Accounting.⁵

⁵Particularly Municipal Accounting and Auditing (Chicago: Municipal Finance Officers Association, 1951), 250 pp., and A Standard Classification of Municipal Accounts (Chicago: Municipal Finance Officers Association, 1953), 129 pp.

These bring together the views of governmental accounting representatives of virtually all of the leading organizations in this field. The following discussion will, in large part, follow the recommendations of that committee. For convenience, the summary of recommended accounting principles and standard procedures written by the Committee is reproduced in Appendix A.⁶

As indicated in the discussion of financial organization, accounting should be a subdivision of the Department of Finance, and the latter Department should be responsible for financial administration throughout the governmental unit. As a consequence, the scope of responsibility of the accounting organization should also be unit-wide.

Subject to review by the Director of Finance, the accounting section or bureau should have the responsibility for designing or approving all forms, documents, and other materials related to the gathering and recording of financial information, or to the collection of the statistical data necessary to proper interpretation of the accounting data. Many forms and records also serve non-financial purposes, and the accounting personnel should work in cooperation with the other users of such materials to devise mutually suitable designs.

⁶Municipal Accounting and Auditing, pp. 1-3.

Fund accounting

One of the distinguishing characteristics of governmental accounting is the necessity to recognize the existence of funds. A fund is a fiscal and accounting entity which is an accounting unit in itself, and requires virtually a complete set of accounting records. A fund may also be described as a group of resources set aside or segregated for carrying on specified activities or for specified purposes. A brief description of the types of funds usually recommended follows.

General fund.--The General Fund is, in a sense, a residual fund in that it is used to account for the revenues and expenditures that are not properly includible in some other fund. At the same time, it is usually the most important fund in terms of the scope of activities financed, and correspondingly in the revenues handled.

Special revenue fund.--Special revenue funds are established to account for revenues which are dedicated to special purposes. For example, the proceeds of a tax levied for poor relief might be accounted for in the Poor Relief Fund, which would then be a special fund. It should be pointed out that there is general agreement that special revenue funds introduce an element of inflexibility into the financial structure and tend to inhibit sound management practices. Therefore, they should be held to an absolute

minimum. The principal evil is in the dedication of revenues to particular purposes. There is seldom any necessary relationship between the revenues realized and the requirements for the purpose involved. This may result in either starvation or opulence of the activity. In either case, control by the governing body and by management is weakened because they cannot weigh the desirability of use of the revenue for the special purpose against its desirability for other purposes and act on the basis of their evaluation.

Utility fund.--The utility fund (or funds) is set up to account for the operations of a municipally owned utility, one fund being established for each utility operated by the unit. The term "utility" is applied to business type operations which sell services to the public, such as water plants, electric power systems, etc. "Other enterprises," which in recent years have included such commercial activities as airports, parking garages, markets, port facilities, and numerous others, are treated much the same as utilities. Both utilities and other enterprises should generally be accounted for according to the standards applicable to similar privately operated activities.

The three types of funds listed above are the most important of the day-by-day operating funds. However, there are some additional funds which in individual cases may become very important. They are discussed below.

Working capital fund.--The working capital fund is set up to provide goods or services to other activities of the unit. It might be thought of as similar to the "company store." It is an auxiliary type of fund which has as its purpose the facilitation of the operations of other funds. An example of this fund type is a municipal garage, which services the motor vehicles of the various activities in the unit, charging each operating unit according to the services rendered. It is similar to a commercial enterprise, but doing business only with other funds and not with the public. It is commonly set up on a relatively self-supporting basis and is sometimes referred to as a revolving fund.

Bond funds.--Bond funds are set up to account for the proceeds of the sale of bonds which are to be paid from the general revenues. The debt created by the bond issues is not included in these funds. See "General Bonded Debt" below in this regard.

Special assessment funds.--Special assessment funds are established to account for special assessments levied against property owners for the costs of local improvements, such as sidewalks, which directly benefit their property.

Sinking fund.--Sinking funds are established to account for the accumulation of resources for the eventual retirement of term bonds. With the emphasis on serial bonds in recent years, the sinking fund has become relatively unimportant.

Trust and agency funds.--Trust funds are funds which the governmental unit holds as trustee for some special purpose, such as college scholarships or employee pensions. Agency funds are used to account for resources which are the property of some entity outside the governmental unit, for example, taxes collected for another government, which are held by the local unit only as agent for the other entity.

General fixed assets and general bonded debt.--In addition to the funds discussed above, separate accounting is provided for the general fixed assets of the local unit and for the general bonded debt. A complete and self-balancing set of accounts is set up for each of these, but is not regarded as a fund. General fixed assets are those not properly includible in the accounts of a working capital fund, a trust fund, or a utility or other enterprise fund. General bonded debt is all bonded debt not properly includible in the accounts of an assessment fund or of a utility or other enterprise fund.

Types of records

The types of records suitable for use by local governments are the same as those suitable for commercial use; that is, they consist of journals, ledgers, various forms of subsidiary records, and numerous kinds of forms, documents, and other material. The techniques for recording

and handling information within the system may properly range from manual processing to electronic processing.

As a minimum, the records should be maintained on a double-entry basis, and should include a complete and self-balancing ledger for each fund, together with such subsidiary and supporting records as may be necessary for managerial and reporting purposes.

The complete, balanced ledgers provide period by period control over the resources of the unit, facilitate statement preparation, provide ready reference at any time, provide good audit trails, and greatly enhance internal control. They should be regarded as an absolute minimum for any unit.

Subsidiary records should be provided whenever a summary account will not provide adequate information for custodial, management, and reporting needs. From the custodial standpoint, supporting records are usually required for most classes of receivables, such as taxes, utility accounts, assessments, etc. They are similarly required for almost all classes of resources other than receivables, such as cash accounts, land, buildings, equipment, investments, supplies inventories, etc.

Management must use many of the above records, and in addition must have supporting detail from time to time regarding such other accounts as appropriation-expenditure

accounts, regarding contracts or other liabilities, revenues, and perhaps, analyses of surplus.

Supporting details may be needed for reporting to the public, for example, the nature of and parties granted tax abatements, or the tax delinquents and properties offered or sold for taxes.

The validity of the summary account or the detail is dependent upon regular reconciliation of the subsidiary records with the summary records, and a careful accounting for any discrepancies.

Classification of accounts

The purpose of the accounts is to classify information into forms which will ultimately be useful in connection with the operating and reporting aspects of financial administration. Accordingly, the chart of accounts should be derived from the uses of the information. The recommendations of the National Committee on Governmental Accounting, as set forth in A Standard Classification of Municipal Accounts,⁷ meet these criteria, and will be the standard adopted here.

A uniform system, such as that recommended above, must be applied to a particular case with care to prevent the inclusion of unnecessary accounts and to insure

⁷(Chicago: Municipal Finance Officers Association, 1953), 129 pp.

completeness. The principles on which the classification is based are nonetheless applicable. When the object of expenditure accounts are being set up, the current expenditures should be broken down only into the four categories, "personal services," "contractual services," "commodities," and "other charges." Capital outlays and debt service expenditures should also be carefully distinguished.

Accounting systems for municipal business enterprises should follow the standard classifications employed by similar private enterprises to the extent that such classifications are consistent with sound financial administration, and to the extent consistent with stewardship of public properties.

It is important that the public and the administration be given enough information to judge the efficiency of operation of municipal enterprises and to evaluate the propriety of the rate structure. Cost accounting systems should be used wherever their use will contribute to the development of such information both for public reporting and for managerial use.

The terminology developed in the chart of accounts should be used consistently throughout all funds, and throughout the budget, the accounting records, and the financial reports.

Basis of accounting

One of the recommendations of the National Committee on Governmental Accounting is subject to very considerable difference of opinion and will not be followed in this analysis. This is the portion of the eleventh item in the summary of principles which reads, "Revenues, partially offset by provisions for estimated losses, should be taken into consideration when earned, even though not received in cash."⁸

The treatment of revenues on an accrual basis is generally accepted in commercial accounting, and it is understandable that an attempt should be made to apply commercial treatment to this aspect of governmental accounting. The objectives of the accounting for revenue in the two types of activity are not parallel, however, and the effects of accrual accounting for revenues are undesirable for governmental units.

The two principal reasons for using the accrual basis with respect to revenue in commercial accounting are to obtain a matching of costs with revenues in the income determination process and to provide for the presentation in the balance sheet of the resulting assets which are available for the use of the firm. The income determination

⁸Municipal Accounting and Auditing (Chicago: Municipal Finance Officers Association, 1951), p. 2.

aspect is completely irrelevant in governmental accounting in general, although not to commercial-type enterprises conducted by governmental units. The balance sheet presentation of the accruals as available assets is at best not very useful, and in many cases is grossly misleading.

With respect to the matching process applicable to a governmental unit, as has been discussed in the budgetary section, the important matching of efforts against results takes the form of a comparison of expenditures with services rendered rather than with revenues produced. The commercial firm evaluates its progress in terms of a revenue produced in a market transaction between presumably independent parties. The revenues of a governmental unit, on the other hand, are often exactions of a legal authority which the debtor would not have agreed to on voluntary basis. They do not represent efforts nor do they represent results.

Accrual basis accounting for revenues results in the inclusion of the receivables among the assets of the unit as available resources, and the inclusion in surplus (ultimately) of the same amount. Such assets are currently available to a commercial firm only to the extent that the unit may legally borrow against them. Borrowing of this type is severely restricted in many states and is not a desirable type of financing for governmental units. The

necessity for formal borrowing against receivables is offset somewhat by the ability of the unit to carry balances in the form of accounts payable, but for governmental units the latter are generally much smaller in amount than the taxes receivable, which typically constitute the bulk of the non-commercial receivables. In a growing governmental unit, the balance of uncollected receivables has a tendency to increase year by year, and thus produce an increasing gap between the accrual basis surplus and the cash available for current use. A common by-product of this gap is a growing balance of revenue-anticipation borrowing. It is not a self-correcting situation, and has led many a unit into serious financial problems.

It might be pointed out also that the amount of uncollectible taxes is somewhat less predictable than the bad debts of a commercial firm, and that the time of probable collection of the remainder of the levy is even less predictable.

One other point with respect to the fallacy of including tax levies, in particular, in revenues of the year levied deserves mention in connection with the political situation in which local governments operate. Any governing body using accrual accounting can improve the apparent financial status of its administration by the simple expedient of levying taxes, without regard to its ability

to collect them. The advantage tends to bear an inverse relationship to the relative collectibility of the taxes levied. The more unreasonable the levy (the higher the rate), the greater the paper advantage and the smaller the percentage of collectibility to be expected. It is not reasonable to assume that the provision for uncollectible taxes will be increased sufficiently to take care of this discrepancy.

With the frequency of changes in administration at the local unit level, accrual basis accounting often results in one administration receiving credit for good financial administration whereas, in fact, their successors in office were left with large, and perhaps uncollectible, receivables and matching short-term notes payable, and the resulting necessity for retrenchment. It is difficult to see what advantages result from accrual accounting for revenues sufficient to offset these disadvantages.

The accounting procedure for receivables recommended here is that which is described in Municipal Accounting and Auditing.⁹ The amounts billed should be recorded by debits to taxes receivable (or other appropriate receivable account), and by credits to uncollected taxes or, for other forms of receivables, to a similar offsetting account.

⁹National Committee on Governmental Accounting (Chicago: Municipal Finance Officers Association, 1951), p. 11.

This effectively reduces their recording to a statistical basis. The amounts collected should be debited to cash and credited to appropriate revenue accounts, and a reversing entry made to remove from the accounts that portion of the receivable account and its matching reserve which represents the billed amount collected. If discounts are allowed or penalties charged, the actual collection may be either less or more than the amount of the credit to the receivable account.

Unlike the revenues, expenditures should be recorded on the accrual basis. In addition, the amount of commitments made against appropriations should be recorded in the appropriation-expenditure accounts. As discussed in connection with budgetary procedures, the budget provides a plan of efforts to be directed toward certain objectives. The efforts actually put forth are best measured, in a financial sense, by the amounts of goods and services applied to the achievement of the objectives. The measurement of this effort is independent of the time of payment for such goods or services, and is, therefore, best accomplished by the use of the accrual basis in recording expenditures. The matching of expenditures against appropriations for purposes of evaluating efforts and accomplishments should exclude encumbrances from the amounts spent because the benefits of such commitments have not been

received by the governmental unit. Encumbrance accounting has as its primary function the limiting of total expenditures to the budgeted amount and is not a proper part of the matching process.

Accounting and internal control - special areas

Assets.--In general, the accounting and internal control systems for assets are concerned with establishing the existence of any assets which are rightfully the property of the governmental unit, providing both physical protection and value protection, controlling their custody and use, and controlling their disposition. Certain specific applications of these concerns are discussed below.

Cash.--The procedures related to cash must insure that all recorded receipts are properly accounted for and also that all receipts are recorded. One additional requirement is that all funds which should be received are received. Once received, the cash must be protected, and finally must be paid out only upon proper authorization.

Receipts.--The assurance that all funds which should be received are received is largely dependent upon two factors. The first requirement is that the collecting agency, the cashier's office in the finance department structure recommended, must receive information about all amounts due. This information can be provided in large part by notifications from the assessments and billing section

for the major items of receipts, most of which are billable. It is desirable also that the assessments and billing section establish the amounts which should be received from unbilled sources, such as grants-in-aid.

Items of receipts not subject to billing in advance, such as fees for building permits or inspections can be controlled, in part, by procedures which prevent the issuance of permits or inspection certificates until payment has been received. The cashier's section can also make use of telephone directories, surveys, review of building permits, and many other sources of information to discover businesses subject to license fees or other requirements.

The second factor necessary to assure the receipt of payments due the unit is prompt and vigorous collection action by the collector or other appropriate member of the cashier's section. Vigorous and impartial collection procedures are fair to all. Any procedures which permit some debtors to lag in payments increase the costs of those who pay promptly.

To assure proper recording of cash, it is necessary to begin at the point of receipt. In general, pre-numbered receipts should be used, and should be prepared at least in duplicate, so that one copy can be given to the payer and one copy retained. The retained copies can be sorted to serve as the basis for the entries necessary to record the various receipts.

It is desirable, wherever the cost of equipment is not prohibitive, to make use of cash registers at the point of receipt. The registers should be equipped with internally recorded tape records of transactions, and such tapes should be accessible to only the accounting department. Such limited access is accomplished by having the tape stored in a locked compartment in the register, and issuing the key to only the accounting section. Validating registers, that is, registers which print on the customer's receipt the amount recorded in the register, are the most desirable type.

Daily cash reports should be prepared by the cashier's section. Such reports should break the collections down at least by funds. The additional breakdown into the various revenues and non-revenue sources may be done either in the cashier's office or the accounting office.

All cash received should be deposited intact daily. Payments should never be permitted to be made direct from receipts. In cases where very small amounts are collected, it may be satisfactory to require deposits only at the end of each week, but the time and manner of making deposits should be prescribed and enforced by the governing body.

Deposits should be made only in depositories authorized by the governing body. The governing body, in turn, should select depositories only from a list of approved

depositories prepared and issued by the state division of local government finance. All deposits should be covered by securities placed in escrow by the depositories, or by other approved form of security, such as surety bonds issued by approved surety companies, as provided by the division of local government finance.

It is essential in governmental accounting to maintain the separation of funds from the point of receipt throughout the financial procedures. The cash received should be deposited immediately to the credit of the fund to which it belongs. It may be feasible to combine the cash of two or more funds into a single checking account, but the portion of the account belonging to each fund should be indicated by a cash account in that fund's records. No check which would result in an overdraft in any fund's cash account should be approved.

Under no circumstances should any funds of a governmental unit be deposited in the name of any official or employee of the unit. Deposits should always be in the name of a fund or of the governmental unit.

All employees whose duties include the handling of cash or other assets subject to misappropriation should be covered by security bonds. The bonds should always be proportional to the potential loss to the unit in the event of defalcation, and should be with approved bonding companies.

The division of local government finance should set the standards for such approval and should issue lists of firms meeting the minimum requirements.

In addition to the procedural, bond, and record protection discussed above, the funds, while in the control of the governmental unit, should be protected by physical safeguards, such as vaults, locked cash registers, and adequate security procedures. In addition, insurance protection should be provided against other possible sources of losses, such as fire or theft.

Purchase and payment procedures.---Control over disbursements must begin at the point where obligations are incurred if it is to be effective in assuring the expenditure of funds only for legal and authorized purposes. An essential element in this aspect of control procedures is centralized purchasing. Centralized purchasing has a dual function, both providing an efficient method of purchasing, and at the same time subjecting most expenditure commitments, including contracts, to careful scrutiny as to their propriety.

Centralized purchasing facilitates the application of internal control techniques to commitments by channeling all such commitments through one prescribed route. As a result, they can readily be checked against authorizations before the purchase orders or contracts are released. When

coupled with careful receiving procedures for all goods and with related procedures with respect to services, as well as conscientiously applied review of all payment requests, it is a strong deterrent to the misuse of funds.

The role of the cashier is complementary to that of the purchasing section. The purchasing section controls the incurring of obligations, whereas the cashier's section controls the payment of obligations. There should be a requirement that all payments, with the possible exception of certain highly restricted payments from petty cash funds, be made by check. All checks should require the signature of the cashier and should be signed by him only when supported by proper payment authorizations. The nature of such authorizations should be clearly specified in the system design, and might include such documents as approved invoices, supported by purchase orders and receiving reports, approved payroll sheets, or other appropriate forms.

Control at the point of expenditure is essential if the centralized purchasing and personnel controls are to be effective. Without proper payment controls, it can be expected that purchasing or other control routines will be by-passed.

Closely related to the foregoing are certain activities of the personnel department. The greatest portion of

the total expenditures of a typical local government will be for personal services; therefore, control of personnel costs is essential. Through its hiring procedures, job classification studies, and through review of payrolls for such things as proper classification and pay rates as well as validity of names and positions, it can prevent improper payments either of error or of design. A review of payrolls by the personnel department should be a part of the internal control system.

Encumbering the accounts.--Disbursement records are linked with the purchase control procedures by requiring that each purchase order be checked against the accounts to be charged with the eventual cost of the order. The purpose of the check is to determine, before approval of the purchase order, that sufficient obligational authority to cover the order remains uncommitted. If supplies are bought for a central supply store and charged to operating activities as issued, supply requisitions must similarly receive clearance before being filled. No contract requiring payments should be signed until it has had prior clearance indicating that an appropriation balance is available to cover it.

To be effective as a control device, this procedure must include the encumbering of the appropriation accounts when the purchase orders or other expenditure authorizations

are approved. For this purpose, the estimated or contractual amount of the commitment should be entered in the account as an encumbrance, and the available balance should be reduced accordingly.

When the actual invoice or request for payment is received and approved, the amount which was originally encumbered should be reversed out of the account, and the actual amount recorded as an expenditure.

If the above procedures are applied before any commitment is made, and the related treatment is accorded to the actual expenditures, financial compliance with the budgetary plan can reasonably be assured. In addition, the status of any appropriation can be determined at a glance.

Disbursement control - other considerations.--Careful control procedures should also be applied to non-expenditure disbursements, such as the purchase of investments. The use of pre-numbered documents is recommended in connection with purchase and payment procedures, as with receipt procedures. It is particularly important that checks and purchase order forms be pre-numbered.

All fund cash accounts should be kept up to date to prevent over-drafts, and all bank accounts should be reconciled at least monthly. The reconciliations should be prepared by the accounting section, and the bank statements

should be obtained by the accounting section directly from the bank. This, coupled with regular audit procedures by the accounting section provides for internal control over the work of the cashier's section.

Receivables.--The receivables procedures are closely related to the cash receipts procedures described above. The bulk of the cash receipts come from sources which take the form of receivables at least briefly. Whereas the collector is primarily concerned with collecting all of the billed amounts, the assessments and billing section must be concerned with the completeness of the billing procedures.

In the system of controls recommended, the assessment and billing sections provide two important elements. One is the specialized attention which can be given to the problem of assuring full and equitable billing of all amounts which should be billed. The second is the establishment, independent of the collecting agency, of the amounts which should be collected. While the billing does not cover all possible sources of receipts, it usually covers the most important sources, and if conscientiously executed, will leave few sources of receipts to chance collection.

It might be well to mention that the assessments and billing section should prove the total of the individual tax bills against the product of the assessed valuation times

the tax rate before releasing the bills. Similar proof techniques should be applied whenever applicable.

The assessments and billing section should report all amounts billed, in summary form, to the accounting department so that control accounts may be established in the ledgers. By these control accounts the collecting personnel are charged with responsibility for the amounts billed. The details of the billings must be reported to the cashier's office to provide the basis for the collection procedures.

The accounting department should record the amounts billed, as reported by the assessments and billing section, the amounts collected as reported by the cashier's office, and should compute balances due. At regular intervals the balances shown by the accounts should be compared with the detail of uncollected amounts as shown by the cashier's records, and any discrepancies accounted for. This also is a part of the internal audit function of the accounting department. The accounting section should also test the reliability of the detailed receivables by such techniques as requests for confirmation of balances as listed, by review of collection details, or by other appropriate means.

The authority to abate any part of any receivable, other than to correct clerical error, should be vested in the governing body. The chief administrator may properly

submit lists of proposed abatements, supported by appropriate justifications, but the propriety of such abatements should be carefully considered by the governing body. Any abatements approved should be set forth in writing, and should be recorded as part of the official proceedings of the governing body.

Property records.--Records of all properties, real and personal, owned by the governmental unit are essential both for proper administration and for protection. The direction of the use of all resources of the unit toward the goals of the organization, as expressed more specifically in particular programs and activities, requires full knowledge regarding the resources. Such knowledge may in part be supplied by carefully compiled inventories or summaries. Protection of governmental resources against dissipation or misuse also requires information which may in part be supplied by inventories or property records.

The scope of property records should be adequate to include all real property and all personal property. Personal property in one sense includes all resources other than real property, but cash and receivables may be excluded from this section because of the coverage elsewhere. Among the assets which should be included, are investments, operating supplies in storerooms, warehouses, etc., machinery and equipment of all types, and furniture and fixtures.

Structures and improvements on the real estate also must be described but may be grouped with the real estate on which they are situated.

The basic principles underlying procedures for property accounting and control are well expressed by the following statements, quoted from Municipal Finance Administration:¹⁰

1. Complete integration between property accounting and general accounting.
2. Standard procedures through which to acquire, record, transfer, and dispose of fixed assets.
3. A uniform classification of fixed asset accounts for general ledger and property ledger purposes.
4. Use of comprehensive and well-designed forms for recording complete information with respect to each separate unit of property, and a well-planned arrangement for filing these records.
5. Effective accounting control between the general ledger and the property ledgers.
6. Effective physical control of properties in the operating departments.

The principles expressed in the foregoing are quite clear, but a few comments may serve to relate them to this paper. First, the complete integration between property accounting and general accounting requires that changes in the status of the property accounts be recorded with the same formality as changes in operating accounts. For example, it should be possible to trace a capital outlay

¹⁰International City Managers' Association (5th ed.; Chicago, The Association, 1955), p. 398.

recorded in the fund expenditure accounts to a property accountability charge in the general fixed asset accounts. Further, the responsibility for both entries should lie with the accounting section.

It was stated early in the accounting discussion that the validity of the summary accounts or the detailed records depended upon the regular reconciliation of the two. Items "3" and "5" in the list above are applications of this requirement to property accounting. The use of uniform classifications in the general ledger and in the property ledgers facilitates the comparison of the detail with the summary accounts. The effective accounting control between the general ledger and the property ledgers, in turn, is supported by such comparisons as well as by the inter-relationship of the accounting entries.

Effective physical control of properties in the operating departments is largely a problem to be handled through the administrative organization, through the regular re-evaluation of programs brought about by program budgeting, and through the related reports on properties, which are discussed in the reporting section below. An important ingredient in such control is the assignment of custody and responsibility for all properties to specific organization units, and a system of records which clearly indicates the details of such custody and responsibility.

Liabilities.--Without considering the detailed mechanics of liability accounting, three principle standards may be identified. The first of these, as stated earlier, is that the accounts should be kept on an accrual basis with respect to obligations. This will result in the establishment of liability accounts among the general ledger accounts of the various funds. The second requirement is that the records must provide the basis for distinguishing the character of the various types of liabilities. The third requirement is that bonded debt should be accounted for in the general bonded debt accounts except for bonds payable from assessment funds or the bonds of utilities or other enterprises.

Bonded debt, like general fixed assets, must be carefully integrated into the general accounting system. The proceeds of bond issues must be accounted for in one of the operating funds, and the payment of matured bonds or interest must be made by some fund. It is essential that it be possible to relate the receipts or payments of such funds with the changes in the bonded debt accounts. Similarly, it should be possible at all times to reconcile the amount of outstanding debt shown in the bonded debt accounts with detailed analyses of such debt. The same requirement applies to bonded debt of assessment funds and utility or other enterprise funds.

Surplus.--The surplus of a fund other than a utility or other enterprise fund should not include any amount still represented by a receivable. This result is accomplished automatically by the recording of revenues on a cash basis and receivables on a memorandum or "wash-entry" basis. An exception to this rule might be made in the case of inter-fund receivables if loans between funds are permitted and the borrowing fund is able to repay the loan. In such case the receivable does not ordinarily represent unrealized revenue.

The surplus of such funds should be segregated into restricted surplus or reserves in the amount of any such inter-fund receivables, inventories, or other assets not available for immediate appropriation. The balance of surplus should be designated as available surplus.

If commercial-type accounting is employed with respect to utility or other enterprise funds, the surplus of such funds may include amounts represented by any form of assets.

Recommendations for implementing the standards

As stated earlier, constitutional provisions are not generally applicable to detailed regulations such as are involved in the application of the tools and techniques of financial administration. Therefore, no constitutional provisions are recommended relative to the topics discussed in this chapter.

Statutory provisions should be limited to broad statements of legislative policy, as described in Chapter II, giving the finance division of the state-local government commission specific authority to implement them. The statutes should also give the division (subject to supervision and review by the higher-level state-local government commission in all instances) the power to enforce compliance with the statutes and its regulations. For example, they should require that the approval of the finance division must be obtained to establish the validity of any local government budget, and that no expenditures may legally be made except in accordance with a valid budget.

The finance division should issue regulations as necessary, prepare and distribute manuals for the guidance of local government officials, promote and engage in educational activities, give advice and counsel to local government officials or to other interested citizens, supervise local activities to the extent necessary through field representatives and other methods, and in general, use all available methods to promote high standards of local government financial administration. Service is likely to be the keynote of success in this field of endeavor.

Summary

This chapter has been concerned with three inter-related areas; budgetary planning and control; accounting

and related procedures; and special areas of accounting and internal control.

The central problems of budgetary planning and control were identified as the determination of the proper allocation of the limited resources available to local governments, and the efficient utilization of available resources in the furtherance of the planned activities. Program budgeting was set forth as the standard, and the elements of program budgeting examined in some detail. These are, very briefly, the clear definition of objectives; a careful examination of alternative routes to objectives; the identification of potential sources of funds and determination of amounts probably to be available to finance outlays; the adoption of a plan for the conduct of the affairs of the local government for the ensuing budgetary period; and the conscientious execution of the plan.

In connection with accounting procedures in general, the importance of establishing a centralized finance department having jurisdiction throughout the governmental unit was again emphasized. Recommendations were included for fund accounting, double-entry accounting, the use of standard classifications of accounts on a state-wide basis, and for accounting for commercial-type enterprises on a commercial basis. Most of the foregoing accounting recommendations were based in substantial part on the publications

of the National Committee on Governmental Accounting. In one important departure from the recommendations of the National Committee, it was recommended that accounting for revenues be on a cash basis, except in the case of enterprise accounting. Even in the latter case it would not be objectionable.

The discussion of special areas of accounting and internal control was concerned largely with asset accounting, although there was brief mention of liabilities and surplus. The emphasis in asset accounting was upon establishing the existence of any assets rightfully the property of the governmental units, and with providing both physical protection and value protection, controlling their custody and use, and controlling their disposition.

Two points are of sufficient importance to justify their mention at several times in the discussion of budgetary planning, accounting and control, and in the discussion of reporting to follow. The first of these two points is that it is essential to maintain the identity of programs with the organization units responsible for their execution throughout the budget in its planning and its execution stages, in the accounts, and in the reports which are derived from the accounts and other sources. It is also important to make use of work measurement techniques and statistical data whenever feasible, both in looking ahead

during the planning stages of the budgets, and in the recording of events as they occur, to permit a comparison, in retrospect, of efforts as measured by costs or expenditures with results as measured by various types of information. Although not readily applicable to all activities, the maximum use of work measurement data and statistics should be encouraged.

Finally, a brief statement of recommendations for implementing the standards appears immediately preceding this summary.

CHAPTER V

REPORTING AND AUDITING

This chapter is concerned with standards for reporting the affairs of local governments, both for internal information and control purposes, and for informing the public. Standards designed to insure the reliability of the reported information, primarily through regular audits, will also be discussed. A brief outline of the chapter follows.

I. Reporting

A. External

1. Complete annual financial reports
 - a) Given publicity
 - b) Freely available
 - c) Standards based on publications of the National Committee on Governmental Accounting. Standardized for all units
 - d) Prompt issuance essential
 - e) Audited reports issued if feasible

B. Internal

1. Annual statements same as external
2. Interim statements
 - a) Program type budget comparisons, including statistical and work measurement data
 - b) Cash flow statements
 - c) Balance sheets
 - d) Other reports as required

C. Reports to finance division, state-local government commission

1. Advance copies of budget proposals
2. Copies of budgets as adopted
3. Complete audited annual reports
4. Other reports as required

- II. Auditing
 - A. Annual audits of all local units, including all activities
 - 1. By independent certified public accountants or by auditors on staff of finance division, state-local government commission
 - 2. Opinion statement required in all cases
 - 3. Copy of report filed with division of local government finance
- III. Implementing the standards
 - A. No constitutional provisions
 - B. Broad statements of legislative policy as previously stated

Reporting-general considerations

The most important product of a system of records is a set of reports presenting the important information from the records. Information is the "reason for being" of records. The related procedures which are involved in the creation of the records may serve a number of purposes, such as control, direction, or others, and the use of the information may be remote, as in the case of historical studies; but fundamentally, a record system is an information system. If the system is well designed much information may be obtained by direct reference to the journals, ledgers, or other components. For example, the unencumbered balance of an appropriation may be determined by reference to the appropriation ledger, but a substantial portion of the system's informational value is derived from the reports.

In attempting to set standards for the reports of a local government, one is confronted by the dual problems

that there are many forms and sizes of local governments and that many different individuals and groups are interested in the reports, but their needs and interests are not identical. For these reasons, coupled with the fact that the requirements within groups tend to be for several types of information, an attempt will be made to identify standards which are relevant to the different purposes and the varying types of reports involved.

There are a number of authoritative publications available relative to reporting for local governments, but probably the most widely quoted and followed is that of the National Committee on Governmental Accounting,¹ which was cited earlier. A fairly complete set of illustrative statements is included in the foregoing book and a number of them are reproduced, together with supplementary materials and discussion in Municipal Finance Administration;² therefore, no attempt will be made to include the forms here. However, numerous matters relating to form and content will be discussed.³

¹Municipal Accounting and Auditing (Chicago: Municipal Finance Officers' Association, 1951).

²(5th ed., Chicago: The International City Managers' Association, 1955).

³See also, Municipal Finance Officers' Association, Criteria for Judging A Municipal Financial Report (Chicago: Municipal Finance Officers Association, 1954), and Clarence E. Ridley and Herbert A. Simon, Specifications For The Annual Municipal Report (Chicago, The International City Managers' Association, 1948), 52 pp.

Reporting requirements will be divided into those applicable to reports prepared for the governing body, administrator, and other participants in the operation of the local government, referred to herein as "internal reports," and those prepared for the taxpayers, investors, public administration students, state or federal authorities or other interested parties, to be designated as "external reports." The external reporting requirements, other than those relating to state-local relationships in this area, will be discussed first, followed by "internal reporting," and finally, by state-local relationships.

External reporting

The reporting needs and interests of taxpayers as a group, investors, public administration students, and other outside groups other than state or federal authorities are much alike in many respects; therefore, this discussion will pertain to all of them except where otherwise indicated.

The presentation of information in a report should always be based on the point of view that the function of the report is to inform rather than to conceal; to enlighten rather than to confuse. Accordingly, full use should be made of the entire range of techniques designed to assure the readers' understanding of the information presented. In more specific terms, the report should include such charts, graphs, "pie diagrams," and other visualization aids

as will contribute to ease of understanding and interpretation. The reports should also include complete functional data, that is, information about the nature and volume of work performed. The use of the so-called "popular" approach to reporting is particularly applicable to reporting to the taxpayers, since they are a highly diverse group, many of whom are not prepared to read and understand formal financial statements and statistical reports. Well-designed charts, graphs, and other illustrative materials, however, are useful to all groups.

Some local units have followed the practice of preparing two reports for the use of the external interest groups, one in highly popularized form and usually including very condensed financial and statistical data, and the other more formal in arrangement and more complete in its range of detail. There is no objection to this practice other than the additional expense involved so long as both types of reports are generally available, and so long as the information contained in the two reports is consistent. Closely related to the latter requirement is the recommendation that all reports either directly financial in nature or involving statistical data such as is used in connection with the financial reports be issued by the finance officer or issued only subject to his prior approval. This will prevent the possibility of inconsistencies appearing in

published data which might tend to reflect upon the integrity of the reports of the governmental unit.

Financial statements and the accompanying general information should be issued not less frequently than annually and should cover the full fiscal year of the reporting unit. Consistency in scope of coverage and period covered is essential. Special reports prepared for such purposes as informing the public on a proposed bond issue, annexation, or other special situation may properly be prepared at any time. There is, of course, no objection to the regular issuance of reports on a quarterly or more frequent basis if desired and practical.

As is discussed in the section on auditing, which follows this discussion of reporting, the records of each local government should be audited at least once each year by an independent auditor, and the audit should cover a complete fiscal period in most cases. Inasmuch as the subject matter of the audit report is essentially the same as is covered in the report prepared by the personnel of the unit, much duplication can be avoided by combining the reports. Ideally, the reports should be prepared by the local unit personnel and reviewed by the auditor. The reports should not be prepared for publication by the unit until after the audit is completed, however, so that any necessary corrections disclosed by the audit may be

incorporated into the published report. The auditor's opinion may also be included in the published report.

Promptness in reporting is a most desirable characteristic of a system, and herein lies a problem. The desirability of publishing an audited report can be offset by undue delay in completing the audit. Therefore, it should be stressed that early arrangements should be made with the auditor to assure promptness in the conduct of the audit. Such arrangements should be made early in the year to be audited so that he can carry out certain preliminary work before the close of the fiscal period and so that he can schedule his other commitments to permit him to begin his final audit procedures promptly at the close of the fiscal period. In any event, a report should be published within two months following the close of the fiscal year. A tentative, unaudited report should be issued if necessary to meet this requirement.

Certain questions arise with respect to the methods and extent of distribution of the reports, and the solutions adopted can affect materially the attitudes generated among the interested parties, and potentially, the credit standing of the unit. A number of media are available in most cases for making the distribution to local taxpayers. Many units have successfully utilized a popularized form of report published through the local newspaper. A highly condensed

and summarized statement covering all funds and activities can contribute materially to public understanding. This can be supplemented by sending copies of the report to local radio and television stations, by posting in public places, and by forwarding copies to the local public library system. In all cases, however, a supply of copies of the complete and detailed report should be kept on hand and made available to any taxpayer upon request. There should be no hint of secrecy about local government reports.

The file of available copies of the complete technical report will, upon request, also serve the investor or student of local government, but the local unit will profit from a more positive approach. The positive approach consists of developing and maintaining a file of names and addresses of interested parties or organizations and the mailing to them, without solicitation, of copies of all relevant reports. Of particular importance in this respect are the investment rating agencies, such as Moody's or Standard and Poor's, and bankers or brokers who deal in local government securities. A standardized "Report on Finances" has been developed by the Investment Bankers Association of America⁴ and copies of the report form may be obtained from that organization.

⁴231 South LaSalle St., Chicago, Illinois.

Contents of external reports

This study is concerned primarily with standards for financial administration; therefore a number of aspects of an annual report for external use will not be covered. A good guide to such additional considerations may be found in Ridley and Simon, Specifications For The Annual Municipal Report.⁵ The financial and statistical contents of an annual report should follow the recommendations of the National Committee on Governmental Accounting,⁶ as discussed below.

Statements by funds.--The financial statements of a governmental unit are composed of those which present financial position at a particular point in time, the balance sheets and supporting statements or schedules, and those which summarize changes which have occurred over time, the statements of revenues and expenditures, analyses of changes in surplus, and other analyses and supporting schedules. It is important that the records be so maintained and the statements so prepared that the various statements and schedules covering the changes during a fiscal period will link together the balance sheets at the beginning and

⁵(Chicago: The International City Managers' Association, 1948).

⁶Municipal Accounting and Auditing (Chicago: Municipal Finance Officers' Association, 1951).

end of the period covered. As each fund is a separate fiscal unit, a full set of statements appropriate for the particular fund should be prepared so as to make possible an understanding of the transition from the balance sheet position at the end of the preceding period to the balance sheet position at the end of the currently reported period. A brief survey of the required statements follows.

Balance sheets.--A balance sheet should be prepared for each fund. In governmental accounting most funds are essentially "operating funds" in the sense that they deal only in current items, and their balance sheets include only current assets or resources and current liabilities or commitments. The principal exceptions to this rule are the utility or other enterprise funds which may include both fixed assets and bonded debt, working capital funds which may include fixed assets, and special assessment funds which may include bonded debt.

It is desirable that balance sheets be presented in comparative form. These should show the financial position at the end of the current fiscal period compared with the position at the end of the preceding period. The assets and liabilities shown on the balance sheets should be classified carefully to distinguish each significant class. For example, cash in checking accounts should be distinguished from cash with fiscal agents or cash in sinking funds; taxes

receivable should be shown separately from accounts receivable, and the latter should distinguish each type of account. The taxes receivable should be broken down by year of levy either on the balance sheet or in a supporting schedule. Similarly, any significant differences between classes of liabilities should be indicated.

To be consistent with the earlier recommendation that revenues be recorded on the cash basis, the balance sheet receivables should be offset by 100 per cent reserves. It is also good practice in budgetary funds to offset or restrict surplus in an amount equal to the investment in such non-cash items as inventories.

Utilities or other enterprises, ideally, should be accounted for as though they were independent business units, paying the other funds for any goods or services received from them, and billing other funds for all goods or services rendered. The accounting for utilities should generally be on a commercial basis, although some concepts primarily associated with regulatory rate-setting are not applicable. The balance sheet accounts recommended for various types of utilities may be found in the publications of the National Association of Railroad and Utilities Commissioners.⁷ The

⁷Uniform System of Accounts for Electric Utilities (New York: The State Law Reporting Co., 1937), Uniform System of Accounts for Gas Utilities (New York: The State Law Reporting Co., 1939), and Uniform System of Accounts for Water Utilities, Classes A and B (New York: The State Law Reporting Co., 1939).

use of such classifications will be considered to be the standard.

Statements of operation.--For each fund covered by the budgetary revenue estimates, a statement of actual revenues compared with budget estimates should be prepared. The statement should classify the revenues by sources as recommended in A Standard Classification of Municipal Accounts,⁸ and should compare the amounts realized with the estimates used in the budget, setting forth the difference as actual over or under budget estimates.

A second set of budget comparisons should be included in the statements for each budgetary fund. These should show the amounts appropriated for each purpose, the amounts expended and encumbered for such purposes, and the unencumbered balance of each appropriation. There should be no over-expenditure balances, because proper control procedures do not permit any overexpenditures. If original appropriations prove insufficient, the proper remedy is an amendment to the budget ordinance or resolution.

The organization of information for the budget comparison should be on the basis of functions and activities; that is, in terms of the services which were planned, such as fire prevention, street lighting, or other activities, and should show the amounts which were authorized for

⁸National Committee on Governmental Accounting
(Chicago: Municipal Finance Officer's Association, 1953).

such purposes compared with the amounts spent or encumbered, and the unencumbered balances of the appropriations.⁹

The financial information provided by the budget comparisons should be supplemented by reports showing the volumes of work anticipated for each of the activities covered by the financial reports, the actual volumes of work completed during the budget period, and sufficient textual material to explain why goals were not achieved or why performance was better than anticipated. For example, the reports might show that the garbage collection activity was expected to consist of 150,000 tons collected at an anticipated cost of \$225,000 whereas the actual collections totaled 175,000 tons at a cost of \$250,000. The textual explanation might indicate that the additional activity was due to an annexation which had not been anticipated at the beginning of the year. The significant point in this aspect of reporting is that the reports should provide enough information to permit an understanding and interpretation of both the plan and the results, and of any variations from the plan.

If, as was recommended earlier, the administrative organization is subdivided according to programs and activities, and the accounting records and budgetary plans

⁹See Chapter 5 in Municipal Finance Administration, particularly pp. 119-135.

are all on the same basis, the financial information for the above reports can be taken directly from the accounting records. Similarly, the quantitative work measurement data should be accumulated in records organized on the same plan.

Each of the two preceding financial statements pictures one aspect of the operating results of the fiscal period in isolation. It is necessary to bring them together, and for this purpose, an analysis of surplus statement should be included. This statement should show the beginning balance of the fund surplus, the amount added or deducted because of the excess of revenues over expenditures or vice versa, the amounts and nature of any surplus adjustments made during the period, and the ending balance of surplus for the fund. The beginning figure used should correspond to the closing figure from the preceding period's surplus statement and, similarly, the closing figure should be carried over to the next period's statement.

Additional details pertaining to the expenditures of each fund should be provided by a statement of the expenditures, still grouped according to programs and analyzed into character and object classifications but omitting the budgetary figures. For this purpose only the three character classifications of current expense, capital outlay, and debt redemption, plus four object classes, personal services, contractual services, commodities, and other charges, are required.

Statements of cash receipts and disbursements are desirable for all funds, but a single combined statement in which the transactions of individual funds are indicated by columnar arrangement will generally be satisfactory.

Utility or other enterprise operating statements should be prepared on an essentially commercial basis, using the standard systems recommended in connection with utility balance sheets. The income statements should provide for the classification of revenues by source or type of revenue, and of expenditures by activities, such as, in the case of a water utility, source of supply, power and pumping, purification, etc.¹⁰

Non-fund statements.--General fixed assets and general bonded debt are not covered by any of the preceding statements; therefore additional statements must be provided to show the status of general fixed assets and bonded debt at the end of the fiscal period, and the changes which have occurred during the fiscal period. Two points relative to these accounts should be stressed: first, they do not constitute funds, but only sets of self-balancing accounts; and second, they should never be combined or offset against each other. There is no direct and necessary relationship between them.

¹⁰See forms 29 through 33 in Municipal Finance Administration, pp. 121-125.

General fixed assets statements.--Recommended statements for general fixed assets include two which show the balances at the end of the period and two which analyze the changes which have occurred during the period.¹¹ They will be discussed in that order.

A summary statement should be prepared showing, (1) the balances of the fixed asset accounts at the end of the period classified by types of assets, and (2) total assets, balanced by an analysis of the sources from which the funds were obtained to acquire the assets. This is somewhat similar to a balance sheet composed solely of fixed assets and corresponding equity or investment accounts. It does not, however, include such accounts as "Accumulated depreciation" because no depreciation is recorded on general fixed assets.

The summary statement of fixed assets should be supported by an analysis of fixed assets at the end of the fiscal period showing the functions and activities to which they are assigned. While this analysis might be confined to a listing of the amounts charged to each activity, it is useful to know what kinds of assets each function or activity is responsible for; therefore a columnar tabulation by

¹¹See National Committee on Governmental Accounting, Municipal Accounting and Auditing (Chicago: Municipal Finance Officers' Association, 1951), pp. 120-139.

functions and activities, with columns for land, buildings, improvements other than buildings, and machinery and equipment is recommended.

Changes in general fixed assets during the period should be analyzed to show the sources from which funds were obtained to make additions to fixed assets, and to show the nature of reductions in fixed assets during the period. The same columnar arrangement suggested for the preceding statement, with the addition of a column for construction work in progress will provide for the desired information. Depreciation should not be recorded on general fixed assets, therefore, the changes reported should represent the gross amounts of additions to fixed assets or the cost or other book value of assets disposed of.

An analysis of the amounts added to or deducted from the fixed asset holdings of each function or activity is provided by the final statement recommended for inclusion in the coverage of general fixed assets, which is the statement of changes in fixed assets by functions and activities.

The principal schedule reporting the status of general bonded debt is the combined statement of general bonded debt and interest. It should show the amounts available in sinking funds, together with the additional amounts to be provided in future years for both bond

principal and bond interest. This provides some basis for beginning an evaluation of the probable debt burden imposed by existing obligations. Although it obviously must be supplemented by a great deal of additional information, it is distinctly superior to listing only the principal amounts of future maturities.¹² The amounts listed under the above headings of amounts available and to be provided are balanced against a listing of the amounts of bond principal and bond interest payable in future years.

The statements and schedules listed above are the principal financial reports required, but to be fully useful they must be supplemented by a multitude of supporting schedules and analyses. In addition, the statistical tables illustrated in Section III of Municipal Accounting and Auditing¹³ are virtually indispensable if the statements are to serve adequately the requirements of the investor and the investment rating agencies. These should also be considered a standard part of an annual report for external distribution, but will not be discussed further here.

¹²However, see comments to the contrary in Arthur N. Horig's article, "Suggested Improvements in Governmental Accounting," The Accounting Review, Vol. XXXVIII, No. 4, October, 1963, p. 760.

¹³See National Committee on Governmental Accounting, Municipal Accounting and Auditing (Chicago: Municipal Finance Officers' Association, 1951).

Internal reporting

Reports to the governing body are ordinarily designed to keep them informed of activities and events in broad terms consistent with their principal function of policy-making. Consequently they should receive regular reports of financial position and budgetary expenditure comparisons in condensed program terms. That is, the reports should be by funds, and should be broken down further by functions and activities which correspond to the programs authorized by the governing body, and to the responsibility centers charged with carrying out the programs. For example, the report should group together all public safety activities, under the general heading of public safety. That general function should be broken down into its components, such as police department, fire department, and such other major activities as might be appropriate. Police department, in turn, should be broken down into the various units of its internal organization, which should be by the nature of the work done by each sub-activity, such as police training, general and criminal records, uniformed patrol, etc. The financial reports should indicate only total expenditures and encumbrances for each of the activities compared with the appropriations. Similarly, the work load reports comparing actual with anticipated work should be in summary form by activities.

The governing body should also receive regular reports of the status of revenue realization efforts and results in condensed form. In addition, they should receive fully detailed reports of special studies and investigations which will require their careful evaluation in arriving at policy decisions, as well as any other detailed information they may request.

A copy of the complete annual report as prepared for external distribution, if prepared in accordance with the above standards, will ordinarily serve the purposes of the governing body as well. This body must also be provided with a fully detailed copy of the budget document together with its' supporting justifications and analyses.

Internal reporting requirements, other than those pertaining to the governing body, are largely divisible into those relating to reports to department heads and other operating officials, and those relating to reports prepared for the chief administrative official. Standards for reporting to operating officials other than the chief administrator will be omitted except to mention that such reports are usually equivalent to segments of the reports prepared for the chief administrator but containing more detailed information with respect to the sub-unit's operations.

Among the most important of the reports required by the chief administrator are those which are necessary for the proper exercise of budgetary control and those which are necessary for adequate cash management and control. The necessity for adequate budgetary reports was mentioned in the section on budgetary control but was not put into specific terms; therefore some basic requirements will now be set forth. They will be followed by a discussion of cash control and other relevant reports.

The reporting period for budgetary control purposes should ordinarily be a month, often supplemented by comparisons with the preceding month or the corresponding month of the preceding year, and by year-to-date figures. The use of an allotment system, however, makes it necessary for the budgetary reports to show the status of each allotment balance which introduces a quarterly element if the allotments are on a quarterly basis. The reports, nonetheless, should be prepared each month.

The financial portion of the budgetary reports should indicate (1) the amount of the appropriation for each appropriation purpose separately identified in the budget ordinance, (2) the adjusted balance of the allocations to date, (3) the expenditures and encumbrances chargeable against the authorizations, and (4) the unencumbered balance. The appropriations should be expressed in program terms,

broken down into responsibility centers, and the expenditure and encumbrance information in the same terms, so that the financial measure of efforts expended toward particular program objectives to date is clearly set forth. In conjunction with the financial reports, simultaneous reports of a non-financial character setting forth the measurements or other indications of the extent to which the immediate program objectives have been accomplished must be prepared. A comparison between efforts and accomplishments to date is thus provided. The immediate program objectives are such relatively measurable concepts as the amount of paving completed or the number of street lights installed. The ultimate objectives of programs, such as economy in maintenance, or greater safety are not immediately measurable; but measurement is not essential to the control aspect of program budgeting.

Management of the revenue aspect of the budget is also essential, and monthly statements which compare the revenues collected to date with the amounts estimated in the budget should be prepared. These should be supplemented with statements organized for cash management. Management of the cash position requires anticipation of both cash inflows and cash outflows and is, therefore, related to, although not identical with, the revenue and expenditure sides of the budget.

In order that management may plan cash requirements and to permit logical allotment procedures, each department head should be required to submit a plan, based on the approved appropriation for his department, in which he sets forth by quarters his estimate of when his expenditures will be made. Prior to the start of each quarter he should also be required to submit quarterly estimates, broken down by months, of his payment requirements for the coming quarter. From these departmental estimates, the finance officer can develop cash requirements forecasts each month.

In a similar manner, the pattern of cash receipts should be analyzed, and the expected receipts for each month put into the forecast of cash available. When combined with the beginning cash balances and the disbursement forecasts, a cash budget, identifying any needed borrowings in advance, can be prepared. This should be submitted monthly to the chief administrator.

The cash anticipation report should be accompanied by (1) statement of cash transactions to date, showing the planned receipts and disbursements to date as compared with the realized receipts and disbursements to date, and (2) a statement setting forth the beginning cash balances, receipts, disbursements, and ending cash balances. Summary figures should be used for receipts and disbursements.

The chief administrator should also receive monthly operating statements of all utilities or other enterprises showing the operations of such enterprises in considerable detail, and should receive monthly balance sheets for all funds and enterprises in summary form. At the end of the year he should receive a complete annual report containing essentially the same information as the one prepared for general distribution, but with more detail, particularly of revenues and appropriation-expenditure data.

Reporting to state or federal agencies

It is not feasible to set detailed standards for reporting to state and federal line agencies because the reporting requirements vary with the nature of the state-local or federal-local relationship. For example, the state highway department or the U.S. Bureau of Roads may require reports of road and highway construction in such form as to meet the requirements of particular cost-sharing or grant legislation; federal or state welfare agencies may require particular case information, etc.

It is clearly desirable, however, that the division of local government finance (or in some cases the state-local government commission) act in a liaison capacity between external agencies and the local units with respect to reporting requirements. Efforts should be made to assure that the accounting system designed for the more important

purposes of efficient operation and guidance toward planned objectives will not be unnecessarily burdened by such special reports.

The reporting requirements of the division of local government finance should include a provision for the regular filing with the division, by each local unit, of a copy of the complete and audited annual financial report. This should be a fully detailed report, in accordance with form and contents requirements set by the finance division, and not a summarized version such as might be prepared in popular format for distribution to local taxpayers.

In addition, it is highly desirable that a copy of the proposed budget be filed with the division prior to its adoption by the governing body, and that a copy of the budget as adopted be filed with that office. Budgetary forms and procedures should be prescribed by the division of local government finance.

The division should have statutory authority to review the proposed budget for compliance with legal requirements. The review should be concerned with both the estimated revenues and the appropriations.

The revenue estimates should be checked for conformity with the cash basis and for reasonableness. The meaning of the term "reasonable" in this connotation should be established either by statute or by regulations issued by the

division of local government finance. Each unit would thus know in advance the standards which would be applied. Standards of "reasonableness" should be designed to evaluate the reliability of the estimates in the light of the particular local government's record and prospects. For example, is the estimate of non-property taxes reasonable in view of past experience, trends, changes in statutes, or other relevant factors. Similarly, are estimates of surplus available for appropriation based on apparent conditions? The finance division should have authority to correct improper estimates of revenues and to require appropriate modification of the budget to achieve a balance consistent with the revised revenues.

The principal concern of the finance division in reviewing the expenditure side of the budget should be with legal compliance. This primarily concerns the adequacy of content and proper manner of presentation. The purposes for which the local units choose to spend their money should not be subject to review. There are, however, two major exceptions to this position: (1) the expenditures should be for governmental purposes within the meaning of the constitution and statutes, and (2) adequate provision should be made for debt service. These are proper subjects for administrative review. In addition, the total appropriations should not be permitted to exceed the approved estimate of revenues plus any bona-fide surplus appropriated.

The division of local government finance should also maintain complete files relating to formal local government debt: therefore, all issues or retirements of bonds or notes, deposits in or payments from sinking funds or funds with fiscal agents, or other debt transactions should be reported to the division.

In governmental accounting terminology there are two types of audits, classified on a time basis--the pre-audit and the post-audit. The pre-audit is more commonly known in commercial practice as a part of the internal control system, and the post-audit as the external audit. These are discussed below in accordance with governmental accounting terminology.

The pre-audit.--The pre-audit consists of all of the procedures by which the internal functioning of the organization is checked before transactions or activities are completed. For example, the examination of an invoice for mechanical accuracy and for proper supporting documents, such as purchase orders and receiving reports before payment is approved, is a form of pre-audit. The checking of purchase orders against appropriation accounts to determine the availability of an encumbered balance before the release of the order is another example. Numerous other pre-audit activities are built into the internal control system described earlier. These will not be discussed further.

The post-audit.--A post-audit consists of an examination of the financial affairs of an organization after the transactions or activities have been completed. It is a historical review in large part, although many aspects of post-audits have forward-looking purposes. For example, the review of the existing system of internal control may provide the basis for suggestions with respect to future improvements in organization.

The post-audit has a number of purposes, and all of them are important. However, the review of the stewardship of public funds which it provides should probably be listed first. By means of an independent examination of the manner in which the financial affairs of a unit have been conducted, it becomes possible to assure the public that the public business has been honestly and efficiently administered. In the less common case, it may reveal mismanagement, illegal use of resources, or other deficiencies.

As a closely related purpose, the audit serves to protect the local unit personnel against unwarranted suspicion.

At the same time that it provides the public with a review of the affairs of the unit, it provides the governing body with a review of the work of the chief administrator, and the administrator with a review of his subordinates.

A properly conducted audit will also provide the administrator with a useful "outside" view-point on the management of the organization, and often will result in valuable suggestions regarding management, internal control, or other topics.

There is some question as to who should conduct the audit. This is a point on which authorities are not in complete agreement. They are in agreement, however, that the auditor should be independent of the activities being audited.

The three possibilities usually considered are audits by independent public accountants, audits by state auditors, and audits by auditors representative of the legislative body of the local unit. Of these three, the third is clearly the least desirable, since it does not involve a review by someone completely outside the authority of the unit. The public is entitled to a point of view which is unbiased with respect to policy as well as with respect to detail.

It is the position of the author that local units should have the option to call upon the services of an independent public accountant, but that the state should maintain a staff sufficient to audit those local units which fail to contract for such services or which request state audits. The local unit should be charged for the services of the state auditors.

It is of paramount importance to the value of the audit requirement that the auditor chosen be fully qualified. It is to be presumed that the state would provide only qualified auditors; therefore the standards of qualifications pertain primarily to the independent public accountant. In this respect it should be required that audits only by certified public accountants would be acceptable. It is probably true that some non-certified accountants are capable of doing the work satisfactorily. The qualification of such accountants has not been established by independent and competent examining authority, however, and the public is entitled to assurance in this respect.

Independent audits should be required at the close of each fiscal year, and at the close of any other period when there is a change in the personnel responsible for the handling of public funds.

All financial activities of the local government should be covered by audits as of the same date; that is, as of the close of the fiscal period. There is no justification for excluding from the audit requirement any unit which handles the public funds or properties. If distinct activities exist, such as independent boards, they may be audited as separate entities; but the dates of all audit periods should coincide. The results of all such separate audits should be incorporated into the unit's general report.

The auditors should ordinarily be appointed by the governing body or requested by that body in the case of state auditors. In either event, the appointment should be made as early in the year to be covered as possible to permit preliminary work by the auditors before the close of the fiscal year. This is particularly important when contracting with independent CPAs. The state auditors often do not have the staff to permit flexibility in timing and promptness in auditing.

The terms of the engagement should be carefully spelled out in the contract. No attempt will be made here to cover the terms recommended, but a discussion of this point may be found in Municipal Accounting and Auditing.¹⁴

Although the discussion here will be expressed in terms of the standards applicable to certified public accountants, standards for the conduct of a municipal audit are essentially the same, whether the work is performed by state auditors or by certified public accountants.

The basic standard is that the audit should be conducted in such a manner as to encourage the auditor to express an opinion that the financial statements present fairly the financial position of the various funds and

¹⁴National Committee on Governmental Accounting, Municipal Accounting and Auditing (Chicago: Municipal Finance Officers' Association, 1951), pp. 187-189.

accounts, and the results of fund operations for the fiscal period. He should also be able to state that the accounting records have been kept and the statements prepared in accordance with generally accepted accounting procedures, applied on a basis consistent with that of the preceding year.¹⁵ For this purpose, generally accepted accounting procedures may be regarded as those set forth by the National Committee on Governmental Accounting¹⁶ with the qualification that revenues should be recorded on a cash basis, as discussed earlier.

Except for special audits, the work of the auditor should always be conducted with the above requirement in mind. In the event that his findings make it impossible to give an opinion, as recommended above, he should then specifically disclaim an opinion and indicate the basis for his disclaimer. There is an intermediate area in which the auditor feels that he can not give an unqualified opinion, but does not wish to deny an opinion entirely. He may properly give a qualified opinion in such cases, but should use the procedure with caution. The opinion requirement is equally applicable to state auditors.

¹⁵See Committee on Auditing Procedures, American Institute of Certified Public Accountants, Generally Accepted Auditing Standards (New York: A.I.C.P.A., 1954).

¹⁶Municipal Accounting and Auditing (Chicago: The Municipal Finance Officers' Association, 1951).

The other generally accepted auditing standards set forth in the American Institute of Certified Public Accountants publication cited above, are equally applicable to governmental audits. Two of these, listed as standards of field work, are especially pertinent:

2. There is to be a proper study and evaluation of the existing internal control as a basis for reliance thereon and for the determination of the resultant extent of the tests to which auditing procedures are to be restricted.
3. Sufficient competent evidential matter is to be obtained through inspection, observation, inquiries and confirmations to afford a reasonable basis for an opinion regarding the financial statements under examination.¹⁷

The reliance of the auditor upon the system of internal control is pointed out for two reasons: first, to emphasize the importance placed on the system of internal control by the auditor, which is indicative of its importance to the unit, and second to suggest the use of test procedures. There is a tendency to think in terms of completely detailed audits when dealing with governmental units. In some cases this is necessary, but the proper application of selective testing procedures can materially reduce the audit cost without substantially reducing its effectiveness.

The necessity for obtaining sufficient competent evidence to form the basis for an opinion must not be

¹⁷Ibid., pp. 13, 14.

overlooked. In particular the importance of observation, inquiries, and confirmations must be stressed. The need for such procedures in connection with the audits of receivables and inventories, including fixed assets, is a case in point.

The financial statements and statistical tables included in the audit report should be substantially the same as those recommended for inclusion in the complete annual report for public distribution. Because of this duplication, it is highly desirable that the audit be performed promptly after the close of the fiscal year so that the audited statements, including the auditor's opinion, may be distributed.

The finance department of the local unit can materially reduce the audit cost and expedite the work by the advance preparation of drafts of the financial statements and the various tables. They can be of further assistance by preparing various detailed lists and schedules which will be needed by the auditor, such as lists of accounts receivable, taxes receivable, analyses of equipment changes, etc. With the aid of such prepared materials, the auditor can concentrate on verification and examination of the information and on related subjects, such as the internal control system, and spend less time on needless clerical detail.

An attempt has been made to identify the most

important and broadest standards applicable to local government audits, but much additional discussion, together with procedural recommendations may be found in Municipal Accounting and Auditing.¹⁸

Recommendations for implementing the standards

Constitutional requirements are not generally applicable to detailed regulations such as are involved in the supervision of reporting and auditing. As in the preceding chapter, therefore, no constitutional treatment of the subject is recommended.

Statutes should be limited to broad statements of legislative policy, as described in some detail in Chapter II, giving the finance division of the state-local government commission specific authority to implement them. Adequate powers of enforcement are also essential in this connection, as was true in connection with the other tools and techniques of financial administration. In brief, the implementing recommendations of the preceding chapter are fully applicable here.

Summary

The importance of preparing and publishing complete annual financial reports of local government activities was

¹⁸National Committee on Governmental Accounting (Chicago: Municipal Finance Officers' Association, 1951), Part Three.

stressed. Such reports should be available in fully detailed form and should be given publicity, including voluntary mailing to such interested parties as bond dealers, investment rating agencies, or others as applicable. It is also useful to publish reports (in addition to the more formal and detailed statements) in "popular" form, for the benefit of citizens not familiar with financial statement analysis.

The standards as to form and content are based largely upon the recommendations of the National Committee on Governmental Accounting, but with additional emphasis upon the use of work measurement and statistical data. They should be standardized for all units within a state, that is, minimum standards and uniform terminology should apply to all. Any local government should be free to go beyond the requirements of the standards.

Prompt issuance of reports is essential, and the reports issued should contain the audited statements if feasible. If the audited statements are not available in time to permit publication within two months after the close of the fiscal period, however, promptness should take precedence over the audit requirement.

The internal reports should include the complete annual report prepared for external distribution, but should be supplemented by frequent additional reports. For internal

management purposes, statements should be prepared at least monthly, and promptness in reporting is even more essential internally than in connection with external reports. Internal reports may be more detailed in some respects than external reports, and should include complete statistical and work measurement data. They should also include cash flow statements to facilitate management of the local government's cash position.

Reports to the finance division of the state-local government commission should include an advance copy of the local government's proposed budget, to be reviewed and approved by the division, and a copy of the budget of the local unit as adopted. A copy of the complete and audited annual report, and such other reports as might be requested by the division should also be filed.

Audits should be made promptly after the close of the fiscal year, preferably on the basis of early contractual arrangements permitting the auditor to do some preliminary work before the close of the fiscal period. Audits should be either by independent certified public accountants or by the staff of the finance division of the state-local government commission. The local governments should have the option to choose either type audit, but standards for either should be established by the finance division. A clear statement of the auditor's opinion

should be a requirement of each audit report. Copies of the audit reports should be filed promptly with the finance division of the state-local government commission. The finance division should have the authority to conduct an audit of any local government on its own initiative, whether audited by an independent auditor or not, and for any period pertinent to the purpose of the audit.

CHAPTER VI

SELECTION OF CASE STUDY STATES

The two case study states of Georgia and North Carolina, at the start of the 1920's, were very much alike in economic and social characteristics, and in their approaches to local government financial administration including the role of the state in this respect but they have taken widely divergent paths since that time. North Carolina early established itself as a pioneer in the field of state supervision of local government finance, as indicated by the following quotation: "No state within recent years has applied itself with greater energy to the improvement of its governmental structure and its methods of administration, State and local, than North Carolina. What is more, these efforts have resulted in changes and improvements of so advanced a character that they have attracted widespread attention of all of her sister commonwealths."¹ The extent of the interest generated is indicated by the following quotation from the same source: "Due to the

¹Paul V. Betters (ed.), State Centralization in North Carolina (Washington, D.C.: The Brookings Institution, 1932), Preface, p. v.

widespread interest that the enactment of these laws has attracted throughout the country the Institute for Government Research [now incorporated into the Brookings Institution] has thought that a service would be rendered by the publication of a volume having for its purpose to make known the character of this action."²

Evidence of the continuing interest in the North Carolina approach to state-local relations in the field of local government finance is the following quotation from Dr. Wylie Kilpatrick, one of the country's leading authorities in this field: "Of the many illustrations of the relation between accounting and debt administration, the one chosen is the North Carolina Local Government Commission, perhaps the best known of state agencies dealing with local debt."³ The high regard in which the North Carolina Local Government Commission is held nationally is also shared locally, as stated by Mr. John Alexander McMahon, General Counsel of the North Carolina Association of County Commissioners: "The respect and regard among local

²Ibid., Preface, p. vi.

³Wylie Kilpatrick, State Technical Assistance to Local Governments' Borrowing Operations (Preliminary draft). The preliminary draft of a monograph prepared for the Advisory Commission on Intergovernmental Relations, 1962, p. 23.

government officials both for the Commission and its Secretary of almost thirty years, Mr. W. E. Easterling, is the best indication of its success, . . ."⁴

Georgia, in contrast, has been regarded as lagging badly by those most intimately acquainted with her affairs. Many statements to this effect could be cited from the 1930's, and the situation was not much different in the 1940's, as evidenced by the following quotation from Dr. Robert P. Brooks, a leading student of Georgia's fiscal affairs:

From one of the [Tennessee Taxpayers] Association's recent publications, the following quotations are made:

The chief improvements furnished by other states to local government are centralized accounting, modern budgeting, complete annual audits of every official of the local units of government, and uniformity in administrative procedure. These reforms, if installed and properly administered, would help to eliminate the losses and wastes of the local units of government in Tennessee.

One would only have to change the name Tennessee to Georgia to make the above quotation completely applicable to our state. The only difference is that Tennessee is actively moving in the direction of better government . . ., while Georgia supinely does nothing.⁵

⁴John Alexander McMahon, The North Carolina Local Government Commission (Chapel Hill: The North Carolina Association of County Commissioners, 1960, p. 18.

⁵Robert Preston Brooks, State Supervision of Local Fiscal Affairs in Georgia (Athens: Institute for the Study of Georgia Problems, The University of Georgia, 1948), p. 5, quoting Tennessee Taxpayers Association, Inc., County, City and Town Government in Tennessee (Nashville: The Association, Dec., 1947), p. 14.

The failure of Georgia to act is again cited, by another student of Georgia financial administration, in the following quotation from a 1957 publication:

Who is going to bring about the changes recommended in this paper? The legislature is apparently unconcerned, as evidenced by the many century old laws still on the statute books. County officials either are unaware of the improvements now possible, or they prefer the time-honored ways of their grandfathers to any change. Citizens are usually oblivious of what is going on at the courthouse until they receive a higher tax bill, and then their concern soon passes. In this setting, isn't it high time that somebody took an interest in Georgia county finances?

As the situation has not changed materially since the dates of the latest quotations above, the two states present a significant contrast and an interesting opportunity to apply the standards set forth in the preceding chapters and to demonstrate their usefulness. It is hoped that this will suggest a pattern for similar studies in other states. At the same time, although secondary to the foregoing objective, the comparison may provide some insight into the validity of the standards themselves. The standards carry the weight of considerable authority: North Carolina is widely regarded as a leading state in the achievement of sound local government financial administration. It is to be expected, therefore, that there should be

⁶Homer Black, "County Accounting in Georgia," Eleventh Annual Georgia Accounting Institute (Athens: College of Business Administration, The University of Georgia, 1957), p. 28.

a strong parallelism between the standards and the framework for and practice of local government financial administration in North Carolina. Conversely, such parallelism should be lacking in Georgia. In Chapters VII and VIII, the constitutional, statutory, and administrative aspects of the two states' approaches to local government financial administration will be compared with the standards to evaluate the systems used in the two states, and incidentally, to review the validity of the standards. This will be followed, in Chapter IX by an examination of the results of the author's questionnaires which were distributed in both states, and by other information relevant to an evaluation of the financial administration systems and practices in use.

In order that the reader may observe for himself the similarity between Georgia and North Carolina which existed prior to the period of change in the latter state, certain selected data regarding economic and social patterns in the two states will be presented next, followed by materials selected to illustrate the similarity of the financial administration problems confronting the authorities of that period. Finally, a brief exposition of the major changes in the constitutional, statutory, and administrative framework in North Carolina will conclude the chapter.

Economic and social data

The following tables indicate something of the similarities as well as the differences in the composition of the population, income, and governmental structure (numbers and types of local units) of the two states. They have been selected as illustrative rather than comprehensive. However, they appear to be representative and consistent with many other statistical indicators to be found in the publications of the U.S. Bureau of the Census or of the various state agencies.

TABLE 1

TOTAL POPULATION, GEORGIA AND NORTH CAROLINA
(In Thousands)

	<u>1910</u>	<u>1920</u>	<u>1930</u>	<u>1940</u>	<u>1950</u>	<u>1960</u>
Georgia	2609	2896	2909	3124	3445	3943
North Carolina	2206	2559	3170	3572	4062	4532

Source: U.S. Bureau of the Census, Census of Population.

TABLE 2

POPULATION, URBAN AND RURAL, GEORGIA AND NORTH CAROLINA
(In Thousands)

	<u>1920</u>	<u>1930</u>	<u>1940</u>	<u>1950</u>	<u>1960</u>
Urban: Georgia	728	895	1074	1559 ¹	2180 ²
North Carolina	490	810	974	1368 ¹	1802 ²
Rural: Georgia	2168	2013	2050	1885 ¹	1763 ²
North Carolina	2069	2360	2597	2694 ¹	2754 ²

¹Based on new (in 1950) census definition of "urban" which includes incorporated places having populations of 2500 or more, unincorporated places having populations of 2500 or more, and the densely settled urban fringe around cities.

²Based on 1960 definition, which is substantially the same as the 1950 definition.

Source: U.S. Bureau of the Census, Statistical Abstract of The United States.

TABLE 3

FARM POPULATION AS A PER CENT OF TOTAL POPULATION
GEORGIA AND NORTH CAROLINA

	<u>1920</u>	<u>1930</u>	<u>1940</u>	<u>1950</u>	<u>1960</u>
Georgia	58.2	48.8	43.8	27.9	10.3
North Carolina	58.7	50.5	46.5	33.9	17.7

Source: U.S. Bureau of the Census, Census of Population.

It can be seen from the tables above that both states have grown steadily since 1910, with North Carolina showing a faster growth until the 1950-1960 decade, but the total populations are still somewhat similar. North Carolina's total population first exceeded that of Georgia in 1930,

and the excess for North Carolina in 1950 and 1960, though not large, was important. The pattern of growth appears somewhat different in that the rural population of Georgia has shown an absolute decrease while the urban population has approximately trebled since 1920. In North Carolina, on the contrary, the rural population has increased simultaneously with an increase in urban population to almost four times the 1920 figure. The farm population in North Carolina has also remained a higher proportion of total population than is true in Georgia. However, these facts can be appraised only in conjunction with the population density figures in the following table. The two states are quite similar in size, Georgia's area of 58,876 square miles exceeding that of North Carolina, 52,712 square miles by approximately 11 per cent.

TABLE 4

POPULATION PER SQUARE MILE, GEORGIA AND NORTH CAROLINA

	<u>1910</u>	<u>1920</u>	<u>1930</u>	<u>1940</u>	<u>1950</u>	<u>1960</u>
Georgia	44.4	49.3	49.7 ¹	53.4	58.9	67.7
North Carolina	45.3	52.5	64.5 ¹	72.7	82.7	92.9

¹Based on 1940 land area.

Source: U.S. Bureau of the Census, Statistical Abstract of The United States.

The racial composition of the population also follows a similar pattern. In terms of absolute numbers, the non-white populations have been very similar, although non-whites make up a smaller proportion of the total population in North Carolina. A negligible portion of the total population in both states has been foreign-born or of foreign-born parentage. Table 5 shows the racial composition of the populations, 1930 to 1960.

TABLE 5

POPULATION BY RACE, GEORGIA AND NORTH CAROLINA
(In thousands)

	<u>1910</u>	<u>1920</u>	<u>1930</u>	<u>1940</u>	<u>1950</u>	<u>1960</u>
Georgia: White	1432	1689	1837	2038	2381	2817
Non-white	1177	1207	1071	1085	1064	1126
North Carolina: White	1501	1784	2235	2568	2983	3399
Non-white	706	775	935	1004	1079	1157

Source: U.S. Bureau of the Census, Statistical Abstract of The United States.

The personal income data which follow give further indication of the fact that Georgia and North Carolina have much in common.

TABLE 6

PERSONAL INCOME, GEORGIA AND NORTH CAROLINA
(Millions of Dollars)

	<u>1920</u>	<u>1930</u>	<u>1940</u>	<u>1950</u>	<u>1960</u>
Georgia	1092	897	1060	3510	6349
North Carolina	933	929	1171	4108	7184

Source: U.S. Department of Commerce, Office of Business Economics, Personal Income by States Since 1929, September, 1956; U.S. Bureau of the Census, Statistical Abstract of The United States; and National Bureau of Economic Research, Inc., Income in the Various States, 1919, 1920, and 1921 (New York, 1925).

TABLE 7

PER CAPITA PERSONAL INCOME, GEORGIA AND NORTH CAROLINA
(Dollars)

	<u>1920</u>	<u>1930</u>	<u>1940</u>	<u>1950</u>	<u>1960</u>
Georgia	331	308	340	1016	1608
North Carolina	345	293	328	1009	1574

Source: U.S. Department of Commerce, Office of Business Economics, Personal Income by States Since 1929, September, 1956; U.S. Bureau of the Census, Statistical Abstract of The United States; and National Bureau of Economic Research, Inc., Income in the Various States, 1919, 1920, and 1921 (New York, 1925).

The local government structures of the two states have been characterized by many small governmental units, and even in the 1960 Census cities in excess of 10,000 population numbered only thirty-three in Georgia and thirty-five in North Carolina. While both states have excessive numbers of counties, spreading Georgia's smaller population

among 159 counties has resulted in generally smaller counties than in North Carolina. This factor may be significant with respect to the administration of counties, but there appears to be little material difference in the sizes of the cities and towns in the two states.

TABLE 8

NUMBER OF CITIES, TOWNS, AND COUNTIES, GEORGIA AND NORTH CAROLINA

	GEORGIA 1960		NORTH CAROLINA 1960	
	Number	%	Number	%
Cities and towns:	<u>561</u>	<u>100</u>	<u>449</u>	<u>100</u>
100,000 or more	3	.053	3	.67
50,000 to 99,999	3	.053	4	.89
25,000 to 49,999	5	.089	7	1.56
10,000 to 24,999	22	3.92	21	4.68
5,000 to 9,999	26	4.63	26	5.79
2,500 to 4,999	55	9.80	45	10.02
1,000 to 2,499	109	19.43	109	24.28
Less than 1,000	338	60.25	234	52.12
	<u>Number</u>	<u>%</u>	<u>Number</u>	<u>%</u>
Counties:	<u>159</u>	<u>100</u>	<u>100</u>	<u>100</u>
250,000 or more	2	1.26	1	1.00
100,000 to 249,999	5	3.14	7	7.00
50,000 to 99,999	2	1.26	22	22.00
25,000 to 49,999	21	13.21	30	30.00
10,000 to 24,999	64	40.25	28	28.00
5,000 to 9,999	54	33.96	11	11.00
Less than 5,000	11	6.92	1	1.00

Source: U.S. Bureau of the Census, Census of Governments: 1962, Vol. I, Governmental Organization (Washington, D.C.: U.S. Government Printing Office, 1963).

In addition to the above, the findings and recommendations of various study groups, talks by prominent citizens, newspaper and journal articles, books, and other materials which appeared between 1898 and 1940 gave evidence of the similarity of the problems faced both by the states and by their local units. A few examples have been selected for inclusion in this chapter to illustrate briefly the nature of some of the problems and the similarities in the views of the various study groups and others who wrestled with them. These examples and quotations are intended to be representative rather than exhaustive.

This paper is concerned with local government financial administration rather than administration of state finances. However, at times the two become very intertwined and it becomes impossible to consider one without giving some consideration to the other. This was certainly so during the period of the 1920's and 1930's, and many of the studies of the period were studies of state revenue or expenditure problems which were often aggravated by the problems and demands of the local governments. The property tax in both North Carolina and Georgia was shared by the states and the local units. Therefore its administration became a common problem, and its productivity likewise concerned both levels of government. Most of the studies and writings were directly or indirectly concerned with this tax.

In both Georgia and North Carolina the scope of state governments and the scope of local governments were small prior to 1900, and their support imposed a relatively light burden on the taxpayers. However, following the turn of the century the citizens of both areas began to demand expansion of governmental functions and the undertaking of new functions. Although the time schedules were not identical, the same two functions of schools and roads gradually assumed roles of primary importance in the expenditure patterns of both states; and in both cases, these were considered to be local functions at the outset. Since the principal source of local revenue in both states was the property tax, the great increase in local expenditures created severe pressure on the property tax system. Some of the more specific examples of the pressures and certain related matters are set forth below.

The first aspect of the property tax for discussion here is the problem of initial assessment, which includes considerations of completeness or thoroughness and considerations of fairness or equality. As early as 1899 a special tax commission in Georgia wrote:

Your committee has concluded at the outset that the system of taxation which makes every taxpayer his own tax-assessor, is radically erroneous. The experience of government testifies to the fact that avarice is too often the master of human frailty for the state to practically leave to the taxpayer the question as to

how much he shall take from his own pocket to contribute to the support of the body politic.⁷

The quoted statement has reference to the listing of property for taxation in Georgia then, as now, consisting of the filing, by the taxpayer, of a listing of his taxable properties, with the values affixed by him. The duties of the local official responsible for preparing the tax lists, called the Tax Receiver, do not include assessing procedures and responsibilities in the usual sense, but are limited to "receiving" the lists submitted by taxpayers.

The situation in North Carolina in the late 1920's was quite comparable to that encountered by the Georgia study commission as indicated by the following humorous but pointed comment:

Property is listed for taxation largely on the principle of let your conscience be your guide. Some people are conscientious, even when it comes to paying taxes. Others seem to have only wee small consciences. The tax book should be awarded the annual prize for the best book of fiction produced during the year.⁸

In both states, also, equalization of property values for tax purposes constituted a continuing problem.

⁷As quoted by Harley L. Lutz in The Georgia System of Revenue (Atlanta: Foote & Davies Co., 1930), p. 103.

⁸News Letter, XII, no. 42, as quoted by Samuel Huntington Hobbs, Jr. in North Carolina, Economic and Social (Chapel Hill, The University of North Carolina Press, 1930), p. 197.

For example, the State Educational Commission of North Carolina expressed their dissatisfaction in 1927 in these terms:

Both the constitution and the statute provide that real property shall be assessed and personal property shall be listed for taxation "at its true value in money." In Part I of this report the Commission pointed out that equalization of the assessments of property is essential to the successful and just working of the property tax. The Commission does not pretend to believe, however, that the valuation of property among the several counties is equalized either at its true⁹ value or at any given percentage of its true value.

The equalization of assessment was of concern in both states because of the existence of educational equalization policies. The Georgia statutes provided for a review and equalization of the various county tax digests by the State Tax Commissioner, and directed him to visit each county annually to investigate the methods and procedures and to familiarize himself with the various classes of property. The inadequacy of this arrangement was made clearly apparent by a 1925 tax commission in the following comments:

Finally, under this system the State Tax Commissioner must visit each of the one hundred and sixty-one counties every year, familiarize himself with values and conditions in each county and then equalize assessments, causing him to travel continuously, learn all

⁹Report on The Public School System of North Carolina, Part IV--The Financial Condition of Counties (Raleigh: Edwards & Broughton Company, 1927), p. 1.

values throughout a county in two days, and this leaves him forty-three of his Sundays in which he may do his equalizing . . .¹⁰

In addition to the problems of assessment mentioned above, both states suffered from inadequate collection procedures and inadequate safeguards over the funds received, inadequate settlement procedures, and numerous other defects throughout the property tax structure. The problem of financial administration extended to virtually all areas of local government finances in both states, and was accompanied by a lack of efficient organization at the state level in each case. Among the more important defects were the existence of numerous boards and commissions (both state and local) with the resulting diffusion of authority and responsibility, lack of leadership because executive authority was further diffused by the election of too many officials, insufficient provision for accounting, reporting, and auditing procedures, excessive reliance on the property tax as a revenue source, unsatisfactory division of functional responsibility between the states and their local units, no satisfactory control over the incurring of debt or

¹⁰Report of the Committee on Taxation (Atlanta: The Committee, 1925), pp. 4, 5. The one hundred and sixty-one counties referred to by the Committee were reduced to the present one hundred and fifty-nine by the merger of Campbell and Milton Counties with Fulton County as of January 1, 1932.

the expenditure of funds, and in general, a vacuum in the field of financial management.

As previously stated, the problems seemed to be recognized in both states, but the course of action chosen in North Carolina differed greatly from that chosen in Georgia. Georgia chose to continue reliance on constitutional and statutory provisions, and made no significant changes in the provisions which existed in the 1920's. Although numerous constitutional and statutory changes have affected the conduct of local government financial affairs since the 1920's, Georgia has made no concerted effort to improve administration through state action. Consequently, no purpose would be served by considering such changes in detail. In North Carolina, by contrast, very substantial constitutional, statutory, and administrative changes have been brought about with the avowed purpose of improving the quality of local government financial administration. Therefore, a brief summary of the major changes will be presented in the balance of this chapter.

1927 - The beginning of a new order in North Carolina

The Commission on County Government, which had been authorized by the North Carolina Legislature and appointed by the Governor in 1925 submitted its report in 1927 and put in motion a profound series of changes. The Commission discovered, during its investigations, that defects which

were observed in one county were usually found in many other counties as well, and concluded that certain functions, if well performed, tended to insure good management. The same functions, if poorly performed, tended to result in loss of efficiency, lowering of the level of public services, and other undesirable effects. The following functions were identified as basic:

- (1) Maintaining unity in the official family of a county in fiscal management;
- (2) Preserving the taxables of a county;
- (3) Collecting the revenue fairly and justly;
- (4) Safeguarding the revenue through proper accounting;
- (5) Safeguarding the expenditures through budget control and a central purchasing agent;
- (6) Protecting the physical property of a county; and
- (7) Providing properly for the administration of justice.¹¹

These recommendations apparently played a major part in shaping the special message of Governor McLean to the General Assembly, and the legislation which was enacted.

1927 Legislation.--The statutes enacted by the Legislature relating to the foregoing recommendations were:

1. An Act to Provide Improved Methods of County Government.¹²
2. An Act to Provide for the Administration of the Fiscal Affairs of Counties.¹³ (This act is usually referred to as the "County Fiscal Control Act.")

¹¹Report of the Commission on County Government
(Raleigh: The Commission, 1927), pp. 4, 5.

¹²Chapter 91, Public Laws of 1927.

¹³Chapter 146, Public Laws of 1927.

3. An Act to Provide for the Issuance of Bonds and Notes of Counties of the State and for Property Taxation for the Payment Thereof with Interest.¹⁴ (The "County Finance Act.")
4. An Act to Provide for the Collection of Taxes Within the Counties of the State and for Settlement of the Same.¹⁵
5. An Act Relating to Tax Liens and Foreclosures of Certificates of Sale.¹⁶

The first of these acts, as listed above, provided for the establishment of the county manager form of government either by action of the Board of Commissioners, or by an election held either upon a petition by the voters of the county, or upon an order of the county commissioners. In the event that the manager form of government should be adopted, the act designated certain duties and powers to be vested in the manager. This portion of the act has been of only moderate importance because few counties have chosen to adopt its provisions.

Another part of the act, however, which applied to those counties choosing to continue under the county commissioners form of administration, modified and expanded the duties of the board.¹⁷ Section 11 required that,

¹⁴Chapter 81, Public Laws of 1927.

¹⁵Chapter 213, Public Laws of 1927.

¹⁶Chapter 221, Public Laws of 1927.

¹⁷Chapter 91, Secs. 11, 12, 13, Public Laws of 1927.

. . . whatever form is adopted, or shall be in use in a county, it shall be the duty of the board of county commissioners to provide, so far as possible, consistent with law, for unifying fiscal management of county affairs, for preserving the sources of revenue, for safeguarding the collection of all revenue, for guarding adequately all expenditures, for securing proper accounting of all funds, and for preserving the physical property of the county.

The quoted section, which remains unmodified today, is obviously based upon the recommendations of the study commission. Sections 12 and 13 made it the duty of the board of commissioners to ". . . provide for the purchasing of supplies for the different departments of the county government in such manner as may prevent waste and duplication in purchasing, . . ." ¹⁸ and authorized the designation of a purchasing agent for the county. The commissioners were also required to provide for the regular inspection and care of county property.

It should be mentioned in connection with this portion of the discussion that all of these provisions, including the ones relating to the county manager form of government, such as clerks of court, tax collectors, and registers of deeds, were weakened by the fact that many county officers are elected rather than appointed in some counties. Several departments are virtually autonomous. Therefore, neither the

¹⁸Ibid., Section 12.

county commissioners nor the county manager are able to exercise the degree of control apparently contemplated by the law.

The most far-reaching aspect of the "Act To Provide Improved Methods of County Government" was the establishment of a County Government Advisory Commission. The Commission, appointed by the governor, consisted of five men, four of whom had previously served on the study commission. The Commission was directed to take under consideration the whole subject of county administration, and to advise with county commissioners with respect to the most efficient administration of their counties. The range of the Commission's responsibility included accounting, organization, and even the legal structure within which counties were administered. The Commission was to make recommendations to the counties with respect to their problems, to assist them in making changes, and to report to the Governor any suggested changes in the general laws.

While there were four other major pieces of legislation in the group under consideration, two of these, numbers four and five in the list above, which related to the collection and settlement of taxes and tax liens and foreclosures, were largely restatement and clarification of existing laws, with some strengthening features added. They did not materially alter the pattern of pre-existing statutes.

The remaining two acts, however, the County Fiscal Control Act, and the County Finance Act represented major additions to the financial statutes affecting local governments.

Major aspects of the new County Fiscal Control Act were its budgetary requirements. These are significant, first, in the fact that it became mandatory for counties to adopt budgets, and to follow prescribed procedures, including those related to estimates, appropriations, and tax levies necessary to finance the budget. Secondly, the act assigned much of the responsibility for preparation of the budget and the subsequent administration of the statutory budgetary control provisions to the county accountant, an office which was created by the same statute.

Looking first at the budget estimates, the new law required the county accountant to prepare and submit to the board not later than the first Monday in July an estimate of the amounts to be expended during the budget year, broken down by functions and objects of expenditure, and an estimate of the various revenues to be available, separating taxes from other sources. The estimate of requirements was to include provision for any deficit in any fund at the end of the current year, and was to include an estimate of the amount of any unencumbered and surplus revenues of the current period in any fund.

The law required the commissioners, immediately upon receipt of the estimate, and not less than twenty days before passage of the appropriation resolution to file the estimate in the office of the clerk of the board where it was to remain available for public inspection. They were also to make it available to all newspapers published in the county, in addition to publishing in at least one such newspaper a notice that the estimate had been prepared and presented to the board and was on file in the office of the clerk for inspection.

The law required that the budget be balanced, and made the county accountant responsible for maintaining records of appropriations, expenditures, encumbrances and fund balances, and for preventing the disbursement of any funds except in accordance with the budget (with the exception of bond proceeds which did not require appropriation).

In addition to disclosure of the budget estimates as mentioned above, the Fiscal Control Act required the publication, at least once each year, of a statement of the financial condition of the county and specified in some detail what it should contain. This also was made the responsibility of the county accountant.

Additional requirements of the County Fiscal Control Act included bonding of county accountants, the making of daily deposits by collecting or receiving officers of the

county, and fund accounting, and made deliberate violations of the act by the county accountant misdemeanors.

The Municipal Finance Act of 1927 was essentially a general enabling act under which the counties were authorized to incur debt without special permission of the legislature, thus placing counties on the same basis as cities which had been included in similar legislation in 1921. Among the more important features of the act are those which define the purposes for which bonds or notes may be issued and taxes levied, those requiring serial maturities and limiting the maximum repayment period, and those which require the use of full faith and credit obligations and impose mandatory taxation requirements on the governing body.

In addition to the foregoing, the Finance Act also established debt limitations based on assessed valuations, and provided that the taxpayers, on a petition signed by at least 15 per cent in number of the voters who voted in the last election for governor, could force the submission of the proposed bond issue to the voters for approval. The act also authorized the issuance of revenue anticipation notes to pay expenses of the current year in anticipation of taxes or other revenues, and to meet the principal or interest of maturing debt not otherwise provided for. The amount of such notes including unpaid balances of previous issues for ordinary expenses was limited to 80 per cent of

the uncollected taxes or other revenues of the fiscal year, and the notes could mature not more than thirty days after the expiration of the fiscal year. The corresponding limits on notes issued to meet maturing debt were that notes could be issued in anticipation of the revenues of the current and succeeding years and must be paid by the end of the succeeding fiscal year. If not paid by the end of the year in which issued, however, the governing body was required at the start of the succeeding year "to levy and collect a tax ad valorem on the property in the county sufficient to pay the principal and interest thereof."¹⁹ Advertising requirements and legal requirements and formalities were also covered.

The other two statutes mentioned, Chapters 213 and 221, Public Laws of 1927 were concerned primarily with strengthening the provisions relating to settlements with tax collectors (then commonly the sheriffs), to assure settlement of the previous tax year before turning the new tax books over to the collector, and to strengthening the requirements relating to advertising of delinquent taxes and foreclosures and penalties on tax liens.

1929 Legislation.--The 1929 Legislature provided only a small additional appropriation for the operation of

¹⁹Chapter 81, Public Laws of 1927.

the County Government Advisory Commission, but it passed three acts, two of which imposed new duties upon the Commission, and strengthened its position in that some of the duties were no longer strictly advisory.

The first of the three 1929 acts was an addition to the County Fiscal Control Act, and made it a misdemeanor for any county commissioner to fail to vote to raise sufficient revenue to meet the operating expenses of the county.²⁰ It was also made a misdemeanor for a county accountant to make a certificate of available funds as required by the County Fiscal Control Act when ". . . there is not a sufficient unencumbered balance remaining for the payment of the obligation, . . ." ²¹

The second act included the provisions which added the most to the responsibilities of the Commission. It gave the Commission supervisory authority as well as responsibility over contracts for the auditing of the counties, and over the installation of bookkeeping systems.²² The first portion of the new law required that before a county could enter into a contract with an auditor other than the county accountant or auditor, the proposed contract must be reduced to writing and

²⁰Chapter 321, Sec. 1, Public Laws of 1929.

²¹Chapter 321, Sec. 3, Public Laws of 1929.

²²Chapter 201, Public Laws of 1929.

submitted to the Commission for approval. The commission was given the authority to consult and advise with the counties with regard to the scope and details of the audit and the amount of the fee. No such contract could be valid without the approval of the Commission. It was also provided that a copy of the audit report must be filed with the Commission.

With a view toward standardizing accounting systems, the law specified further that no system of books could be installed until it had been submitted to the Advisory Commission. The combined effect of this law and the improvement in accounting and bookkeeping methods which took place under the guidance of the Advisory Commission was a substantial reduction in the cost of auditing the counties.

The third act of particular interest in 1929 required all local units in the State to obtain approval of the issuance of any bonds before they could be sold, unless the proposed issue had been submitted to and approved by the voters of the unit. The duty of approving or disapproving such requests was placed upon the State Sinking Fund Commission, which had been established in 1925 to supervise the State's sinking funds. Note that this act applied to all local units rather than merely to counties and to bonds only, excluding notes.

The crisis of 1931.--The Legislature, which was convened in January, 1931, found itself faced with a serious crisis in local government finances and with shrinking revenues, but no crisis at the State level. All of the legislation heretofore passed had proved to be ineffective in bringing about sound policies and procedures at the local level. It is not too surprising, therefore, that major changes were made.

One of the first acts passed by the 1931 Legislature was the Local Government Act.²³ The development of this act was unusual in two ways: first, in that the General Assembly had appointed a joint committee, not to study, but to draft a bill regulating the financing of the local units and to provide for supervision of their financing; and secondly, in that it went beyond the recommendations of the various study groups and prescribed state sale of local government bonds and notes. There had been much discussion of regulation of local debt, but the centralization of the sale in an agency of the State represented a bold step into new territory.

Among the main features of the new Local Government Act were the abolition of the County Government Advisory Commission and the Provision for a Local Government Commission

²³Chapter 60, Public Laws of 1931.

and for a Director of Local Government. It is important to an understanding of the North Carolina system to recognize that the Director of Local Government and the Local Government Commission are distinct entities and are assigned distinct duties and responsibilities. The Director of Local Government was assigned the duties formerly handled by the County Government Advisory Commission as modified, and the Local Government Commission took over the functions, powers and duties of the State Sinking Fund Commission to the extent that those powers, duties, and functions related to local governments. In addition, the Commission was made responsible for the duties related to the issuance of bonds and notes under the new centralized system.

The Commission as originally established consisted of nine members, of which three were ex-officio members, and six were appointed by the Governor, who designated one of the appointees as Director of Local Government. Thus the duties of the Commission and the duties of the Director were correlated. The three ex-officio members were the State Auditor, State Treasurer, and the Commissioner of Revenue. The ex-officio members, together with the Director of Local Government, were constituted an executive committee to carry on business when the full commission was not in session.

Under the 1931 act, local units were required to file an application with the Commission before selling any bonds or notes. Thus, the loophole in the finance acts, which had permitted the uncontrolled sale of notes and the subsequent refunding of the notes into bonds, was closed. Procedures were provided for public hearings regarding the proposed issues, review by the full Commission of any decision of the executive committee (with minor exceptions), and the submission of any disapproved issue to the voters of the unit to override the Commission's veto.

The sale of local unit bonds or notes was required by the law to take place in the offices of the Commission in Raleigh. Procedures for notice of the proposed sale, competitive bidding, award of bonds or notes, and a prohibition against sale at less than par plus accrued interest were also included in the terms of the act. Notes of six months duration or less, and refunding bonds were subjected to somewhat less strict requirements relating to advertising and/or public sale.

The act provided that the bonds or notes must be validated by the Director of Local Government after assurance of proper compliance with all laws, including proper recording of the issue, by the local unit. The validated bonds were required to be turned over to the Treasurer for delivery to the purchaser and for collection

of the proceeds. The Treasurer, in turn, was required to remit the proceeds promptly to the unit or to its properly designated and secured depository, after deducting allowable expenses of the sale. In the case of refunding bonds, the Treasurer was authorized to exchange the new bonds for the old, if appropriate, or to take the proceeds of refunding bonds sold for cash, and to deposit such proceeds for the exclusive purpose of paying the old obligation.

Additional provisions of the Local Government Act gave the Director responsibility for supervision of local unit sinking funds, and gave him authority to require reports from the units, as necessary, to determine the extent to which they have complied with the law. This section also included requirements relating to security for the deposited funds.

The Director was also given authority, in the event of default by a local unit, to appoint a finance administrator for the unit. The administrator then may take over control of all receipts and disbursements of the unit, including the collection of taxes, and may remove accounting, tax collecting, or other financial officers of the unit.

Another provision required the Director to maintain records of the bonded debt and interest requirements of all units, and to notify each unit of approaching principal or interest maturities, at least thirty days prior to such maturities.

The Director, through the office of the Attorney General, was made responsible for instigating action for violations of the criminal provisions of the act, and for bringing to the attention of the Governor for action, violations or breach of duties by officials. The Governor, in turn, after proper hearing, could remove the offending officer and appoint a successor.

The provisions of the County Fiscal Control Act of 1927²⁴ were made applicable to municipalities, an office of municipal accountant was established, with qualifications of the accountant subject to the approval of the Director, and with any accountant serving only at the will of the Director. Fiscal years of all municipalities were changed to end on June 30, corresponding with those of the State and the counties.

Chapter 100 of the Public Laws of 1931 carried out the recommendations of several groups and study commissions, and gave the Director power to develop and to prescribe uniform systems of accounts and records and directed him to proceed to install them in every unit in the State. He was also given the power to develop and to prescribe budgetary forms and records and to enforce their use, as well as authority to require reports from any department, officer,

²⁴Chapter 146, Public Laws of 1927.

or board, at any date, regarding the financial condition or results of operation of the unit or activity.

Additional actions of the Legislature extended the provisions of the 1929 act requiring approval of auditing contracts²⁵ to municipalities,²⁶ and prohibited officials from commingling public funds with their own moneys.²⁷

1933 Through 1936 - the change is completed.--The reorganization of state-local relations and functions was essentially completed in 1933 and 1935 by the passage of certain refining legislation and by the passage and submission to the voters of a constitutional amendment which was subsequently ratified by the latter. The Local Government Commission was slightly modified in 1933 by the addition of the Secretary of State to the list of ex-officio members and the reduction of the number of appointees to five. The State Treasurer became ex-officio Director of Local Government and Chairman of the Local Government Commission and the administrative agency thus became a division of the department of the Treasury. This move was prompted, not by any problem in the former administrative organization, but by the desire to retain the services of

²⁵Chapter 201, Public Laws of 1929.

²⁶Chapter 99, Public Laws of 1931.

²⁷Chapter 77, Public Laws of 1931.

the first Director, Mr. Charles M. Johnson, who had been appointed State Treasurer. Mr. Johnson, in turn, appointed as Secretary of the Local Government Commission his former assistant Mr. W. E. Easterling who has served admirably until the present date in 1963.

The other modifications in 1933 authorized again the issuance of term bonds in funding or refunding issues as had been requested by the Commission, and permitted the holders of 51 per cent or more of the bonds of a local unit, after that unit had been in default for one year, to require the Director to appoint an administrator for the unit.

The 1935 Legislature gave the Commission additional authority to arrange refunding plans for local units, but the significant legislation set up a proposed constitutional amendment to be submitted to the voters in 1936.

The amendment, subsequently ratified, changed Article V, Section 4 of the Constitution to provide that a local unit must submit to the voters any proposed bond or note issue of an amount in excess of two-thirds of the net reduction in debt during the next preceding fiscal year. As a result, almost all new debt issues must be submitted to the voters for approval. Tax anticipation notes within the 50 per cent of current levy limitation, and funding or refunding bonds were exempted from the requirement.

There have been numerous technical and detail changes in the various statutes cited above and in related areas, but the basic framework remains essentially the same as in 1936, and the later legislation will not be discussed here except to mention that the statutes were codified into the General Statutes in 1943 and were reworded and modified in some respects, and that the municipal and county fiscal control acts were re-written in 1955. The latter writing, however, was concerned primarily with elimination of provisions which no longer had significance and with clarification and modernization of terminology, and did not materially alter the effect of the previous statutes.

Summary

This chapter is concerned with the early similarities in the two case study states of Georgia and North Carolina and with the developments in local government financial administration which have taken place since the early 1920's.

As the two states had a great deal in common at the beginning of this period, the developments related here are significant in that they set the pattern for any differences in the constitutional, statutory, or administrative structures which may now exist.

The developments in Georgia during the period represent no change in the basic philosophy toward state-local relationships. Such relationships have traditionally

depended almost exclusively upon detailed legal prescriptions, in very restricted areas, and virtually no administrative supervision exists. The constitutional and statutory changes which have occurred during the period under consideration do not exhibit any consistent pattern or trend. They do not greatly alter the situation which existed at the beginning of the period. In short, there appears to be no significant change.

The State of North Carolina has exhibited an interest in local government financial administration for more than four decades. The pattern of relationships took a distinctly new turn in the late 1920's, however, when at the request of the counties the State established a County Government Advisory Commission. The Commission was directed to concern itself with all aspects of county government administration and to advise county commissioners with respect to more efficient administration. A number of new statutes, including a new county manager act, provided for centralization of fiscal management of the counties, new fiscal and accounting requirements, including budgetary procedures, and a Municipal Finance Act. The latter was a general enabling act which made it no longer necessary for the municipalities to get individual legislative authorizations to incur debt.

Later changes established the Local Government Commission and the Director of Local Government to take over

the duties of the old County Government Advisory Commission and the State Sinking Fund Commission. The new agencies were no longer simply advisory, but were administrative agencies with very considerable authority. Subsequent constitutional and statutory changes increased the authority of the agencies and placed new limitations on the debt-incurring powers of local units.

The broad effect of the changes was a shift from reliance on detailed statutory prescription to heavy reliance upon administrative supervision, complementary to expanded statutory standards of local unit financial administration.

At the end of the period covered, the two states represent two very divergent approaches to local government financial affairs, one relying almost entirely on legal prescription, the other implementing the legal requirements with administrative supervision.

CHAPTER VII

STATE SUPERVISION OF ORGANIZATION AND OF DEBT AND TAX ADMINISTRATION IN THE CASE STUDY STATES

The organization of Chapter VII will parallel that of Chapters II and III and will illustrate the application of the standards developed in Chapters II and III. Inasmuch as it is not feasible to examine in detail all of the constitutional and statutory provisions of the two states in this chapter, the discussion will be limited to major aspects of such provisions. Similarly, the administrative structures of the two states and the supervision of local government tax and debt administration will be examined in broad terms. However, the views expressed herein are based upon a detailed examination of both constitutions and of all directly related statutes and on important court decisions and commentaries as well. It is felt that they will thus be representative of the situation in its major aspects.

Organization for local government financial administration - Georgia

The Constitution of Georgia.---The first general criterion was that constitutional provisions should be few and short. By either standard, the Constitution of Georgia

leaves much to be desired. There are sixteen sections broken down into numerous articles and paragraphs. Some idea of the relative length of the Georgia Constitution may be gained from the Handbook on the Constitutions of the United States and Georgia¹ in which both the federal constitution and the Georgia constitution are reproduced. It requires but sixteen and one-half pages to reproduce the federal constitution, while the Georgia constitution occupies in excess of seventy-nine pages.

The contents of a constitution should be fundamental and timeless, and again Georgia's Constitution fails the test. There are numerous matters included which could be more appropriately covered by state legislation or left to the discretion of local unit officials. For example, Article VII, Section XII lists the salaries to be paid to Justices of the Supreme Court. Judges of the Court of Appeals, and to Judges of the Superior Courts. It also specifies the salaries to be paid to the Solicitors General, and even contains clauses pertaining only to the salary of the Judge of Superior Court of one particular circuit. Numerous similar detailed portions might be cited.

Constitutions should be concerned with matters of state-wide interest, and should be state-wide in their scope.

¹Merritt B. Pound and Albert B. Saye (6th ed.; Athens, Ga., The University of Georgia Press, 1962).

As indicated in the preceding paragraph, the Georgia Constitution includes sections clearly not of state-wide interest. However, by far the most serious defect of the Georgia Constitution lies in the fact that it is not truly state-wide in its application. It is subject to amendments having strictly local application. Such amendments, after being proposed by the General Assembly require approval by referendum only in the local units affected. Such local unit may be a single town, city, or county!

Once approved by the voters, such "general provisions with local application" have equal standing with all other portions of the Constitution and can be modified only by further amendment, which requires voter approval. This practice of local modification of the Constitution prevents the enactment of truly state-wide legislation and greatly complicates administration. The weakness of the Georgia approach is emphasized by the record of the period from 1947 to 1961 when the Constitution of 1945 was amended 273 times, and 229 of the amendments (which are not included in the seventy-nine page length mentioned above) were of local application only.²

On an over-all basis, the Georgia Constitution is too lengthy, too detailed, and too fragmented to provide a firm

²Merritt B. Pound and Albert B. Saye, Handbook on the Constitutions of the United States and Georgia (6th ed.; Athens, Georgia: The University of Georgia Press, 1962), p. 72.

foundation for the establishment of sound local government financial administration. Some aspects of the Constitution will be considered in more detail below. However, they will be the general provisions and may be nullified by amendments of local application in any particular unit. Such local amendments can not be examined here.

Georgia statutory law.--Two principal standards were identified with respect to statutory law. Statutes should be broad statements of legislative policy, not cluttered with excessive detail, and they should be flexible in their application through administrative action. On the first point there can be little question, the Georgia statutes are very detailed. For example, Code Section 92-6215 contains a detailed list of questions to be asked of taxpayers regarding their property and taxable status. At the same time, it indicates the purpose of the questions in the following terms, "For the purpose of having a full and correct return of the real and personal property of this State, . . ." In other words, legislative policy may be expressed in fairly broad terms, but execution of the policy is made dependent upon detailed legislation. Flexibility is not generally sought through administrative authority to modify or adapt the statutes.

A further weakness of the statutory framework is the excessive use of local bills. The Constitution provides

that "Laws of a general nature shall have uniform operation throughout the State, and no special law shall be enacted in any case for which provision has been made by an existing general law."³ However, other sections of the Constitution⁴ offset this in part, and in addition special laws may be passed relative to subjects not covered by general laws. Finally, extensive use is made of "population" acts ostensibly general, but particular in application.

State administrative organization - Georgia.--The State of Georgia does not have an agency primarily assigned to the supervision of state-local relations or of local government financial administration. A number of state agencies, such as the health department, highway department, department of education, and others, exercise some supervision over local units in relation to particular activities. Probably the activity most closely resembling those suggested for a state local government finance division is the supervision exercised by the State Revenue Commissioner over local taxation. This is an additional duty added to those already assigned to the State Revenue Commissioner in handling the State's revenues. Some detailed discussion of the Commissioner's duties with respect to local taxes will be found in the section on tax administration below.

³Article I, Section IV, Paragraph I.

⁴Article XI, Section I, Paragraph VI and Article VI, Section XVII, Paragraph I.

In summary, Georgia's requirements relative to supervision of local government financial administration are fragmented and lacking either unified administration or individual emphasis. That is, such supervision as exists is a by-product of some other relationship such as jointly collected taxes or state grants or shared funds. As was pointed out by Homer Black in an earlier study, "Another defect of the existing mode of state regulation is the lack of effective means of enforcement. Violations of the statutes usually go undetected and unpenalized."⁵ With the exception of the schools, local financial affairs receive little State attention. The books and accounts of the county superintendents of schools and treasurers of local school systems and all other schools receiving state aid are required to be audited annually by the State Department of Audits and Accounts.⁶ This is the only application of the potentially valuable state audit function to local government affairs.

A very weak form of supervision over Georgia's counties is exercised by the grand juries in the various

⁵This quotation is from a "rough draft" of the doctoral dissertation of Mr. Black in the file of the Institute of Law and Government, University of Georgia. The title as shown on the "rough draft" is "An Application of Generally Accepted Principles of Governmental Accounting and Auditing to the Counties of Georgia" and the work was submitted to the University of Michigan in 1956.

⁶Code of Georgia Annotated, 40-1812.

counties, but the effectiveness of this supervision is highly doubtful.

Provisions relating to local government organization in Georgia.--Chapter II advocated that states authorize, either in their constitutions or in their statutes, the optional adoption by local units of the "strong executive" forms of government. This had reference to changes in form or to new incorporations. A constitutional authorization to this effect was advocated, and the council-manager form for cities and the commissioners-manager form for counties were indicated as most desirable. It was also advocated that local governments be given authority to modify their charters on their own initiative, within limits set by state-wide statutes. Georgia's provisions in these respects will now be examined.

The Constitution leaves the forms of local government almost entirely to the discretion of the General Assembly. However, this is partially offset in practice by many local amendments to the Constitution pertaining to forms or offices of government, which inhibit the free exercise of this discretion.

One article authorizes the General Assembly to provide by law for the self-government of municipalities and to delegate powers to the municipalities.⁷ The powers granted

⁷Article XV, Section I, Paragraph I.

under the foregoing article are subject only to laws of state-wide application pertaining to municipalities. The article is dependent upon action by the legislature for its implementation, however, and the only legislation relating to municipal home-rule was passed under a previous constitutional article, and was held invalid by the courts. It is probably not applicable or effective at present.⁸

Two portions of the Constitution pertaining to county government are also of interest. The first of these requires that "Whatever tribunal, or officers, may be created by the General Assembly for the transaction of county matters, shall be uniform throughout the State, ... except that the General Assembly may provide for Commissioners of Roads and Revenues in any county, . . ."⁹ A second section reads, "The General Assembly shall have power to provide for the creation of county commissioners in such counties as may require them, and to define their duties."¹⁰

Taken together, the sections quoted above have been held by the courts to give the General Assembly the authority to pass local laws relating to the creation, powers, and duties of county commissioners. The Assembly has made

⁸ See Robert L. Stoyles, Jr., Handbook for Georgia Councilmen (Athens, Ga.: The Institute of Law and Government of the School of Law, University of Georgia, 1962), p. 10.

⁹ Article XI, Section I, Paragraph VI.

¹⁰ Article VI, Section XVII, Paragraph I.

liberal use of this authority. The obvious result is confusion as to the rights and duties of commissioners in any particular county and the weakening of any general laws passed relating to such rights and duties.¹¹

Statutory enactments of a general nature relating to forms of municipal government are virtually non-existent in Georgia as indicated by the following quotation, "From the act of incorporation which gives life to a municipality, through laws governing its hierarchy of officials, and down to the specific powers possessed by the municipality, the State Legislature reigns supreme. There is no general act which establishes an incorporation procedure, nor is there any act which sets forth the general powers of an incorporated municipality."¹²

The forms of county government are also largely the result of local amendments to the Constitution and local laws and therefore do not follow any definite pattern. There is a general enabling act available to counties, however, under which they may adopt the county manager form of organization by local action, including approval of the

¹¹For a discussion of the confusion which results from ambiguous court interpretations of these and related statutory provisions, see Robert L. Stoyles, Handbook for County Commissioners (Athens, Georgia: The Institute of Law and Government, 1962), pp. 12-21.

¹²Frank K. Gibson and Ted L. Hammock, Forms of City Government in Georgia (Athens, Georgia: The University of Georgia, Bureau of Public Administration, 1957), p. 3.

local voters.¹³ This act has been on the books since 1922, and at the time of this writing, only Fulton County has elected to adopt its provisions. A 1958 act modified the requirement for approval to a simple majority of the qualified voters of the county voting thereon, however, so that future adoptions may be less difficult.¹⁴

Regulation of local government financial organization in Georgia.--The only constitutional standards relating to this topic which were set forth in Chapter II were those which would provide the proper setting by encouraging the strong executive form of government. The statutory standards identified were those relating to the authority of the state's division of local government finance, those necessary to implement the constitutional authority respecting form of government, and the requirement that each unit have a director of finance or equivalent possessing unit-wide financial authority. The more detailed requirements relating to budgets, etc., will be examined in Chapter VIII.

There are no constitutional sections in Georgia which relate to a finance organization at the local government level as an organic whole. The principal direct reference

¹³Acts 1922, p. 82.

¹⁴Acts 1958, p. 327.

to financial officials is a negative one. It provides that "the General Assembly . . . may abolish the office of County Treasurer in any county, may fix the compensation of County Treasurers, and may consolidate the offices of Tax Receiver and Tax Collector in the office of Tax Commissioner, and may fix his compensation, without respect to uniformity."¹⁵ The same paragraph authorized the General Assembly to provide for commissioners of roads and revenues in any county, as mentioned earlier.

The authority to provide for county commissioners is important to financial administration in that prior to the inclusion of this authority in the Constitution, virtually complete control over the administration of the fiscal affairs of the counties was vested in the ordinary. The latter was an official of the court, somewhat equivalent to a probate judge, and at the same time was the chief administrative authority of the county, as well as its chief financial officer. In view of this, the present constitutional authority, which has resulted in the establishment of a commissioner or commissioners in 154 of the 159 counties, must be approved.

The provision quoted above relating to treasurers and tax officials is odd in that the officers whose offices or

¹⁵Article XI, Section I, Paragraph VI.

duties are authorized to be modified are not specifically required by any other section of the Constitution. This is apparently based on the court interpretation that certain offices are required by inference from earlier constitutions. Both the abolition of the office of the treasurer and the consolidation of the two tax offices are contrary to recommendations made earlier, but the tax offices will be discussed later. The office of county treasurer is established by a general statute still in effect.¹⁶ It centralizes certain county financial operations in the treasurer's office. With minor modifications it could correspond to the cashier's section in the discussion of financial organization above, but not to the finance director. It has been greatly reduced in its effect because more than one hundred counties have abolished the office and vested the duties in banks, or in other officials.¹⁷

In general, financial duties are distributed among several officials, most of whom are elected and independent of the control of the county commissioners. This constitutes a major stumbling-block to the achievement of sound financial organization.

¹⁶Code of Georgia Annotated (Atlanta, The Harrison Co.), Chapter 23-10.

¹⁷See editorial note following Section 23-1001 of Code of Georgia Annotated (Atlanta, The Harrison Co.).

State supervision of taxes and debt in Georgia

As in Chapter III, the principal aspects of these topics to be discussed here with respect to taxation are rate limitation laws and assessments; and with respect to debt, debt limitations and state supervision of local government debt issues and debt service.

Tax limitation laws.---The position expressed in Chapter III was that there should be no tax limitation laws. The Constitution of Georgia does not set any limit except with respect to school taxation, and even that can be removed by local action. In this respect, then, the Georgia Constitution meets the standard set.

In recognition that rate limitations are not likely to be abandoned in the near future, a set of standards was set forth which was designed to minimize the undesirable aspects of rate limitations. The major provisions of the Georgia Statutes will be tested against the individual standards below.

The basis to which rate limits are related should be a state-equalized, full value appraisal of all taxable property. It is highly doubtful that Georgia's statutory and administrative provisions can accomplish this, although they provide for valuation at fair market value, local equalization, and state review procedures. See further discussion of this subject under assessment of property below.

The creation of new taxing authorities should be prohibited. In Georgia, the Constitution specifically authorizes the General Assembly to establish taxing districts in counties, outside of municipal limits, to provide water, sewer, sanitation, or fire facilities.¹⁸ The counties are authorized to levy taxes only on the property within such districts. In the absence of an over-all rate limitation the principal question is whether these districts are created solely to meet a need or to by-pass some specific rate limitation. It appears that there is no relationship between existing specific rate limits and the purposes enumerated in the Constitution. Therefore, it may be anticipated that such districts will be created only to provide the services and to assess the costs thereof on something of a benefit basis.

It was indicated in Chapter III that rate limitations, if any, should be applicable only to the total city levy or to the total county levy. The rate limitations applicable to Georgia counties and to Georgia cities are broken down into a complex structure of those applicable to "ordinary current expenses," those applicable to "extraordinary expenses," etc.¹⁹ This is accompanied by the usual requirement that the funds derived from the levies for each of the

¹⁸Article VII, Section IV, Paragraph II.

¹⁹For example, see Code of Georgia Annotated (Atlanta, The Harrison Co.), Chapter 92-41.

separate purposes must be kept and used only for that purpose. Record requirements and penalties for violations of such provisions are also specified.

Georgia's cities, towns and counties are subjected to all of the disadvantages of specific rate limitations cited in Chapter III. This result is mitigated slightly by provisions which permit exceeding certain limits upon approval by the local voters or the local grand jury, but most of the disadvantages remain.

Assessment of property.--The State of Georgia has a direct interest in the assessment of property by counties for two reasons. The first reason is that the state imposes a levy of five mills per one-hundred dollars of assessed value. The base on which this is computed is the value assessed by the county in each instance, and the tax is collected by the county tax collecting official. Such state supervision as exists is largely concerned with the collection of this levy, and is superficial at best.

The second reason for the State of Georgia to maintain a direct interest in the assessment of property by local units is a much more important one in terms of the dollar amounts involved. It is that a very substantial portion of the total revenue of the state is distributed to local governments on the basis of allocation formulae which depend in part upon property tax assessments.

Georgia also imposes both tax rate and debt limitations upon local governments, and in each case the limit is theoretically based on the "fair market value" of taxable property. It has been stated, however, that assessments, which are required to be at fair market value, actually ". . . range from about 10 to 60 per cent of actual value."²⁰ It is apparent that the assessment practice in Georgia does not meet the criterion of justice and equal treatment for all, nor does it provide a satisfactory basis for the collection of the state tax, the distribution of State-collected revenues, or the application of tax rate or debt limitations.

The failure of the assessment procedures to meet legal requirements might be anticipated in view of the following weaknesses in the Georgia system. There is no general financial supervisory agency or even a state board of tax equalization. The duties which should be assigned to such agency have instead been imposed upon the Commissioner of Revenue, whose primary interests are connected with the collection of the state's revenues. Due to staff restrictions and other obligations, the review provided by the office of the Revenue Commissioner must necessarily be limited. The authority and responsibility of the Commissioner

²⁰Cullen B. Gosnell and C. David Anderson, The Government and Administration of Georgia (New York: Thomas Y. Crowell Co., 1956), p. 109.

with respect to equalization are confined to over-all equalization of assessment levels between counties.

At the local level, provision is made for appellate procedures and for some equalization on the initiative of local officials. Assessment of property is commonly carried out by part-time personnel having little or no training for such work. Salaries are generally too low to attract skilled personnel. As a result, competent and fair assessment could scarcely be expected on a state-wide basis.

A further weakness of the Georgia system is the duplication of assessment procedures. The same property usually is independently assessed by the county and by the cities or towns within the county. This is an unnecessary duplication and could easily be eliminated. Georgia's counties and the cities or towns located therein have authority to use combined tax offices and thus eliminate the duplication in assessment, collection, or both.

A final note with respect to assessment of property in Georgia is that there is no requirement that periodic complete revaluation studies be made. The state has made interest-free loans available to counties to encourage revaluation studies, and has authorized borrowing from private sources for the same purpose, but does not require that such studies be made. Many counties and cities have voluntarily

conducted tax equalization programs,²¹ but there is nothing to compel any county or city to do so.

Constitutional or statutory debt limitations.---

Chapter III stated that there should be no constitutional debt limits. Georgia's limitations on the amount of debt which may be incurred are almost exclusively constitutional. It will be necessary, therefore, to examine the constitutional provisions and the related statutory enactments against the standards set for statutory debt limits.

The debt limit should be expressed as a percentage of appraised valuations, and the valuations should be equalized statewide at 100 per cent of present value. The Georgia limits are expressed as percentages of assessed values. The assessed values used, however, as discussed earlier, are subject to most of the defects commonly associated with this base, and are in no sense equalized state-wide or (in most instances) at 100 per cent of present value.

The rate set by statute should be low, and the local government should be free to incur debt within the limit without further authorization other than, perhaps, local referenda. It is debatable whether the Georgia limit of 7 per cent is low in the sense used in Chapter III, but it

²¹See, for example, "The County Angle" on the back cover of Georgia County Government Magazine, Vol. XIII (Atlanta: Association County Commissioners of Georgia, Dec., 1962).

is probably so considered by most of the local officials affected by the limit. Within the 7 per cent of assessed value limitation, local units are free to incur the debt without further authorization except the favorable vote of a majority of the qualified voters of the unit, voting in an election for that purpose.

The Constitution also authorizes local governments to incur additional long-term debt not to exceed 3 per cent of the assessed value of taxable property within the unit. This additional debt requires the prior approval of the General Assembly, and is subject to the same local voting requirement as debt within the 7 per cent limit. Clearly this arrangement makes for inflexibility and for a heavy burden of special legislation upon the General Assembly.

The debt limit should apply to all forms of long-term obligations, including the so-called "self-supporting" or revenue bonds. In Georgia, however, revenue bonds are specifically authorized by the Constitution and exempted from the debt limit.²² It can safely be anticipated that this article will lead to proliferation of authorities, organized primarily for the purpose of avoiding the debt limits. These authorities may, however, remain under the jurisdiction of the governing body of the local unit by which they are established.

²²Article VII, Section VII, Paragraph V.

As mentioned earlier, the creation of separate districts or authorities tends to cause fragmentation of administrative structures, reduces the ability of the local units to issue general obligation bonds, and increases the over-all cost of debt service. The undesirable aspects of revenue bond financing are increased in Georgia because the local units may pledge revenues not directly related to the revenue-producing project, thus further restricting the revenues available for the general operations or obligations of the units.²³

The revenue bonds issued under the authority discussed above are not debt of the issuing unit, and tax revenues may not be used to pay either principal or interest. It is apparent, nonetheless, that should the revenues of the activity itself prove insufficient to meet the related debt service requirements, there would be a strong moral and practical obligation to make property tax revenues available for payment of the debt service on the revenue bonds.

The Constitution of Georgia also authorizes local governments to issue tax anticipation obligations. The aggregate amount of such obligations may not exceed 75 per cent of the amount of gross income from taxes collected by the issuing unit during the last preceding year. All such

²³Code of Georgia Annotated (Atlanta: The Harrison Co.), Chapter 87-8.

loans must be repaid by December 31 of the calendar year in which made, and no loan may be made in any calendar year if there is at that time an unpaid loan made in a previous year. The aggregate amount of such loans, together with other contracts or obligations incurred in any year, may not exceed the anticipated revenue from all sources of that year.²⁴

The inclusion of temporary borrowing within the limits set by the statutory and administrative structure conforms with the standard set earlier. It appears, however, that the amount of temporary borrowing authorized by the Constitution is excessive, and tends to encourage unsound financial practices.

Both the tax rate limitations and the debt restrictions above have tended to encourage excessive reliance upon constitutional amendments of local application.

Administrative supervision.--There is no administrative supervision over most debt issues by Georgia local governments. Refunding bonds are made subject to administrative review by virtue of the constitution,²⁵ and the related statutory enactment which established a Refunding Bond Commission.²⁶ Revenue bonds issued by the various

²⁴Article VII, Section VII, Paragraph IV.

²⁵Article VII, Section VII, Paragraph VI.

²⁶Code of Georgia Annotated (Atlanta: The Harrison Co.), Chapter 87-5A.

revenue producing authorities are not within the jurisdiction of the Commission and may be refunded or refinanced at any time by the authorities which issued them.²⁷

The Refunding Bond Commission is composed of the Secretary of State, The Comptroller General, and the Attorney General. The Commission acts on applications submitted by the local governments and its approval or disapproval is final. There is no provision for appeals.

Local governments desiring to refund outstanding bonds must file applications under oath. The applications must set forth all facts on the maturing debt, total bonded debt of the unit, amount of taxable property in the unit, amount and rate of proposed refunding bonds, maturities, and other relevant information.

The Commission may require additional information or proof and may require a hearing. It is required to act within fifteen days from the date the application is filed. A majority vote of the Commission is required for approval of the proposed refunding.

If the application is approved by the Commission, the governing body of the local unit may issue the refunding bonds upon a favorable vote by a majority of the governing body without submitting the proposal to the voters of the unit.

²⁷Ibid., Chapter 87-8.

The amount of bonds issued under this authority is restricted to the amount of debt to be refunded. Bonds must be in serial form maturing within twenty years in approximately uniform principal amounts each year. The bonds may not be sold at less than par value. Only bonds outstanding at the time of adoption of the Constitution are refundable under this authority.

The Refunding Bond Commission may be authorized to approve or to disapprove applications to refund bonds issued at any time, if the refunding will reduce the amount of principal or interest.²⁸ The General Assembly has taken no action to put this authority into effect.

The scope of authority granted to the Refunding Bond Commission is far too limited to be of great importance. It is a wee small step in a desirable direction, however, and should be commended. It suffers from the defect, which is common among commissions, that it is composed of officials whose principal interests lie elsewhere. However, it is probably adequate for the limited duties placed upon it. The serious weakness, as measured by the standards identified in Chapter III, is the virtual absence of administrative supervision over most aspects of local government finance.

²⁸Constitution of Georgia, Article VII, Section VII, Paragraph VII.

Examination of Georgia section of state supervision of tax and debt administration

An examination of the Constitution of Georgia indicates that it is too long, excessively detailed, not limited to fundamentals, and not state-wide in scope. The statutes are also excessively detailed and do not provide for flexibility through administrative supervision and administrative authority to modify their effect. Extensive use is made of local laws and "population" acts. The Constitution is also subject to amendments of strictly local application.

The Constitution is favorable to sound local government organization, except as hampered by local amendments. It includes broad enabling authority which permits the Legislature to provide for municipal home rule, but there is apparently no valid statute implementing the authority. There are almost no statutes relating to forms of municipal government and the act authorizing counties to adopt the manager plan has been ignored except by Fulton County, which includes much of Atlanta.

Georgia does not have an agency primarily concerned with the supervision of state-local relations or of local government financial administration. Such supervision as exists is divided among several state agencies and is incidental to other duties. The strongest supervision is

exercised in the field of local school affairs, which is outside the scope of this study, while that most directly related to this study is exercised by the State Revenue Commissioner over local government property taxation. The tax supervision is extremely limited, and falls far short of the standards previously identified.

There are very few constitutional or statutory requirements or restrictions relating to organization for financial administration, but the election of many officials tends to inhibit sound administrative forms. The election of a treasurer in each county is an implied constitutional requirement and a specific statutory requirement. However, the Constitution authorizes the General Assembly to abolish the office in any county, and the Assembly has done so in more than one hundred counties. The Constitution also authorizes the General Assembly to combine the two offices of tax (listing) receiver and tax collector, and again the Assembly has done so in many counties, thus destroying the small element of internal control which resulted from the separation of tax listing from tax collection.

The Georgia Constitution is consistent with the standards identified in Chapter III in that it does not prescribe any tax rate limitations, except with respect to school tax levies, and the school limitation can be exceeded by local action. The Georgia statutes, on the contrary,

establish tax rate limits which are applicable to levies for particular purposes, and restrict the proceeds of the levies to the particular purposes. The limits are related to assessed valuations which are in no sense equalized. There is no administrative relief from the operation of the limits. Over all, the tax limitation structure is contrary to the standards in almost all respects.

The treatment of the assessment of property in Georgia also falls short of the standards in most particulars. The limited supervision which is nominally exercised is the responsibility of the Commissioner of Revenue whose primary interests lie elsewhere. The equalization authority of the Commissioner is confined to over-all equalization of assessment levels between counties. Local assessment and review procedures are generally inadequate. The duplication of assessment procedure is an additional problem, both the counties and the cities or towns assessing independently the properties within their boundaries. Finally, there is no mandatory requirement of periodic revaluation of all taxable properties within the various taxing districts.

Contrary to the standards, Georgia imposes constitutional debt limitations. The basis for the limitations is assessed valuation, which is clearly not equalized. Debt up to 7 per cent of assessed value may be incurred with only a favorable vote of the local electorate, and an

additional 3 per cent of assessed value may be incurred with the prior approval of the General Assembly and the electorate. Revenue bonds are specifically exempted from the debt limit. The undesirability of permitting the issuance of revenue bonds outside the debt limits is heightened by the fact that, in Georgia, revenues not associated with the borrowing activity may be pledged to payment of the debt. One point at which the Georgia requirements are in conformity with the standards is in the inclusion of temporary borrowing within the limits set by the statutory and administrative structure.

Most local government debt issues are not subject to administrative supervision in Georgia. There is one minor exception of interest. This is the establishment of a Refunding Bond Commission with authority to approve or disapprove the refunding of certain issues outstanding at the time the constitutional authority was granted.

The Georgia constitutional, statutory, and administrative provisions fall far short of the standards in most aspects of state and local organization for financial administration and with respect to the supervision of local property taxes and debt administration.

Organization for local government financial administration -
North Carolina

The North Carolina Constitution.--The North Carolina Constitution is too lengthy, and contains materials of a legislative nature, but is generally limited to matters of state-wide concern and continuing importance.

The Constitution leaves the discretion entirely with the General Assembly to establish either State or local organizations conducive to sound local government financial administration. Article VII of the Constitution established certain requirements relating to county organization, but gave the General Assembly full authority to modify or to abrogate them. The principal restriction placed upon the General Assembly requires the Legislature to provide by general laws for the organization of cities, towns, and incorporated villages.²⁹ It has been held by the courts, however, that this section does not prohibit the creation of or amendment of a municipal (city, town, or county) charter by special act.³⁰

The North Carolina Constitution also leaves the duties of state officials to the discretion of the General Assembly with the exception of those of the Governor and the Lieutenant Governor. Thus, establishment of a state supervisory relationship is not inhibited by the Constitution.

²⁹Article VIII, Section 4.

³⁰Holmes v. Fayetteville, 197 N.C. 740, S.E. 624 (1929).

The North Carolina Constitution, in brief, may be regarded as favorable to sound organization for local government financial administration in that it creates no obstacles to such organization. Other aspects of the Constitution will be examined below.

North Carolina statutory law.--The two principal general standards set for statutes were that they should be broad statements of legislative policy, uncluttered by excessive detail, and that they should be made flexible in their application through administrative action. With respect to the first point, the North Carolina statutes are very detailed and lengthy. Although they often express legislative policy, they also spell out many details of its anticipated operation. In addition, large numbers of "special-local" laws are in effect.

The element of flexibility through administrative action is provided by a number of the statutes, some of which are discussed below.

State administrative organization - North Carolina.--

The standards identified in Chapter II recommended that each state establish a two-level administrative agency designated as the state-local government commission. The principal portion of the duties of such agency with which this paper is concerned would be assigned, according to the standards, to a lower-level division of local government finance.

North Carolina does not have any agency with a breadth of duties such as were contemplated for the state-local government commission. It does, however, have a Local Government Commission and a Director of Local Government, which function jointly and which are concerned directly with the supervision of local government financial affairs. In addition, there is a State Board of Assessments and a Department of Tax Research each of which is assigned some of the functions recommended for the division of local government finance in the standards set in Chapters II and III.

Most of the authority recommended for assignment to a division of local government finance is assigned to one or another of the state agencies listed above. The failure of the Legislature to appropriate sufficient funds has handicapped them in the performance of the assigned duties. Although this has been alleviated somewhat since 1960, insufficiency of funds still remains a problem. On balance, however, the administrative organization provided is conducive to meeting the standards to an important degree.

Provisions relating to local government organization in North Carolina.--The two principal constitutional articles which affect local government organization have opposite effects.³¹ The first of these requires the election

³¹Article VII, Sec. 1.

in each county of a treasurer, register of deeds, surveyer, and five commissioners. Clerks of the superior courts are also elected.³² This requirement tends to lead to disintegration of administrative organization and to inhibit achievement of the standards for organization set forth above. On the other side of the picture, the provision which requires the Legislature to provide by general laws for the organization of municipal units tends to facilitate achievement of the standards.³³ It is to be expected that more municipal governments than county governments will achieve sound organizations.

The General Assembly has authority to alter the provisions of the Constitution which require the election of several county officials,³⁴ but has not chosen to do so. It has, however, authorized the strong executive form of organization, both for counties and for municipalities. Thus, subject to the weakness imposed by the election of several county officials, sound organizational structure at least is available to all units.

The county commissioners are authorized, at their discretion, to appoint a county manager and to make him administrative head of the county government. He has general

³²Article IV, Sec. 16.

³³Article VIII, Sec. 4.

³⁴Article VII, Sec. 13.

responsibility for county affairs, including appointment of subordinates (subject to approval by the commissioners) and removal of subordinates, without approval of commissioners. No vote is required if the commissioners decide to appoint a manager, but the citizens may initiate a petition and force a vote on the question should they desire a manager when the commissioners have not acted.³⁵

The forms of government made available to cities and towns range from a fairly conventional weak mayor-council arrangement to the strong-mayor form, the commission form, and the council-manager form.³⁶ No indication of legislative preference is given.

The statutes provide that "Within the limitations prescribed by the Constitution and now existing or hereafter enacted general laws, any municipality may amend or repeal its charter or any part thereof or adopt a new charter."³⁷ Such action may be initiated by the governing body or by the citizens, and must be approved by a majority of the qualified voters voting thereon at an election held to decide the question.

On balance, the North Carolina constitutional and statutory provisions relating to forms of government are

³⁵G.S. 153-24.

³⁶G.S. 160-291 et seq.

³⁷G.S. 160-353.

favorable to, but do not promote, the adoption of a strong executive form.

Provisions for local government financial organization in North Carolina.--The only important constitutional provision relating to financial organization is the requirement that a treasurer be elected in each county biennially.³⁸ The election of the treasurer would seem to remove him from the administrative control of the board of county commissioners, but this is alleviated by certain aspects of the general statutes discussed below, which are based on the constitutional authority granted to the Legislature to modify this particular requirement.³⁹

The statutes also require the biennial election of a treasurer in each county, but except five counties by local modifications of the act. The law is extended to the person filling the duties of treasurer if there is no treasurer in the county.⁴⁰ In addition, some tax collectors are elected.

The board of commissioners in each county is given authority to abolish the position of treasurer and to appoint a bank to act as treasurer.⁴¹ More than twenty counties have done so.

³⁸Article VII, Sec. 1.

³⁹Article VII, Sec. 13.

⁴⁰G.S. 155-1 and G.S. 155-4.

⁴¹G.S. 155-3.

The intent of the Legislature with regard to financial administration was made very clear by the following requirement: "But whatever form is adopted, or shall be in use in a county, it shall be the duty of the board of county commissioners to provide, so far as possible, consistent with law, for unifying fiscal management of county affairs, for preserving the sources of revenue, for safeguarding the collection of all revenue, for guarding adequately all expenditures, for securing proper accounting of all funds, and for preserving the physical property of the county."⁴² The statutes also charge the commissioners with a duty to provide for purchasing so as to eliminate waste and duplication and so as to obtain the benefits of purchasing in larger quantities and authorized the appointment of a purchasing agent.⁴³ A further duty assigned to the commissioners is the regular inspection and care of all property of the county, and the delegation of this power to a specific member of the board or to an agent is suggested.⁴⁴

In addition to the duties imposed on county commissioners by the statutes discussed above, and the similar provisions applicable to municipalities, two major acts relate even more specifically to financial organization.

⁴²G.S. 153-26.

⁴³G.S. 153-27.

⁴⁴G.S. 153-28.

These are the County Fiscal Control Act⁴⁵ and the Municipal Fiscal Control Act.⁴⁶ The two acts, while not identical, are very similar, and in each case require the appointment of an "accountant" whose duties are substantially equivalent to those of the finance director in the standards set forth in Chapter II.

The provisions above are reinforced through administrative supervision which is provided by the Director of Local Government and by the Local Government Commission, which are separate but closely related agencies of the state government. The general statement of the duties of the Director, as set forth in the statute reads: "It shall be the duty of the Director of Local Government to visit the local units of government in the State, and to advise and assist the governing bodies and other officers of said units in providing a competent, economical and efficient administration; to suggest approved methods for levying and collecting taxes and other revenues; to suggest such changes in the organization of local units of government as will best promote the public interests, and to render assistance in carrying the same into effect."⁴⁷

⁴⁵General Statutes of North Carolina, Chapter 153, Article 10.

⁴⁶Ibid., Chapter 160, Article 33.

⁴⁷G.S. 153-29.

The Director of Local Government and the Local Government Commission were hampered for many years because appropriations were insufficient to permit full coverage of all the duties assigned, which are very extensive in addition to those quoted above. For example, in the fiscal year ending June 30, 1946, the total expenditures of the Commission (which were virtually the full amount appropriated) equaled \$22,412. By the 1956-57 fiscal year the expenditures had increased to \$39,660. The General Assembly, in 1959, appropriated some additional funds, and an Accounting Advisory Section was established in 1960. The total appropriation for the 1960-61 fiscal year, which included the amounts provided for the new Accounting Advisory Section, was \$78,689, and in the following year, largely due to a general increase in the State salary schedules coupled with step increases in individual salaries, the appropriation was \$81,766. The section has since published a Municipal Accounting Manual which includes recommendations for a financial organization divided into functional sections very similar to the standards set forth in Chapter II. It has also assisted many local units in establishing such organizations for the conduct of their own financial affairs.

Over all, the constitutional, statutory, and administrative provisions in North Carolina seems to conform substantially with the standards set in Chapter II. There

is some weakness in the multiple patterns of local unit administrative organization and in the still restricted activities of the Director of Local Government and the Local Government Commission, but these do not appear to be major weaknesses.

State supervision of taxes and debt in North Carolina

Tax limitation laws.--The standard expressed in Chapter III was that there should be no state limitations on the amount or rates of taxes on property. The State of North Carolina fails to meet this standard in either the Constitution or the statutes. Therefore it is necessary to examine the existing provisions against the alternative standards set forth in Chapter III.

The first of the alternative standards was that rate limitations should be set by statute rather than by constitutional restriction. North Carolina has both constitutional and statutory limitations and thus does not meet this standard. The constitution authorizes a poll tax and sets limits on the amount, but this is a relatively minor tax. Of considerable importance, however, is a section which limits the combined state and county tax on property to twenty cents on the one hundred dollars of value and limits the state portion thereof to five cents on the one hundred dollars.⁴⁸ The limitation does not apply to taxes levied

⁴⁸Article V, Sec. 6.

for the support of the schools for the constitutional term or to taxes levied for "special" purposes. What constitutes a special purpose is a subject for judicial determination.⁴⁹

One result of the constitutional limit, which affects the operations of the general funds of the counties, is that the Legislature has specifically authorized the levying of county taxes for a long list of "special" purposes and in some cases has designated rate limitations for such levies. Each such special purpose may be subject to testing in the courts.

The basis for any rate limitations should be a state-equalized, full-value appraisal of all taxable property. The rate limitation in North Carolina is applied to the local assessment, and local assessments are authorized to be set at fractional portions of "true value in money," therefore the limitation has highly variable impacts among local governments.⁵⁰

The creation of new taxing authorities should be prohibited. Certain special taxing authorities are permitted in North Carolina, but it does not appear that rate limitations are a motivating factor.

The rate limits, if any, should be over-all limits, with one total limit set for all county activities, and one

⁴⁹Nantahala Power, etc., Co. v. Clay County, 213 N.C. 698, 197 S.E. 603 (1938).

⁵⁰G.S. 105-294.

total rate limit set for municipal activities. North Carolina, however, applies its rate limitations only to levies for particular purposes, thus leading to the starving of some activities and satiation of others.

No provision is made for flexibility of rate limitations either through administrative authority or through a vote of the citizens.

Assessment of property.---The first standard for assessments was that they should be at least up to the minimum level of tolerance set by the assessments subdivision in all areas, and with respect to all classes of property. North Carolina laws, as mentioned earlier, specifically permit the assessment of property to be at a fraction of true value, with no specified minimum, although they require appraisal at fair market value. Consequently, great differences exist in the level of assessment among counties.

An application of the preceding standard requires that the state assess utilities, as discussed in Chapter III. This is done with respect to the specialized properties of utilities in North Carolina, although the value of parts of the property, such as land, is assessed locally.

Assessment procedures, forms, and records are prescribed by the State Board of Assessment, which is consistent with the standard set in Chapter III except that the Board is independent of the Local Government Commission. This has

not, in practice, created any problem due perhaps both to the quality of personnel involved and to the fact that the Director of Local Government is a member of the Board.

The assessment of property in North Carolina is carried on exclusively by the counties, again as specified in the standards, but one serious flaw mars the system. Assessments need not be at full value, and the county officials have final authority to set the percentage of true value to be used. Cities and towns within the county are thus obliged to levy their taxes on whatever fractional valuation the county officials choose to adopt. When coupled with the tax rate limitations, this may create major and unnecessary problems. Cities should be free to use full value rather than the assessment percentages set by the counties.

The only qualifications prescribed for tax supervisors, who are in charge of county tax assessments, is that they must have resided in the respective counties for one year prior to appointment, and that they must have experience in appraisal and valuation of real estate " . . . satisfactory to the said board."⁵¹

The regular re-appraisal of real property specified in the standards is provided for by a requirement that

⁵¹G.S. 105-283.

octennial reassessments of real property be made.⁵²

Personal property is required to be assessed each year, together with any newly discovered property or property which has changed in value due to construction, or other specified causes.⁵³

Although the law does not require the use of professional appraisers, the employment of experts is specifically authorized.⁵⁴ In addition, it is required that some sort of standard procedures be used and certain minimum considerations to be used in the valuation of land and buildings are set forth. Personal visits of officers to the appraised property are required.⁵⁵

The State Board of Assessment of North Carolina has substantially all the authority and responsibility set out in the standards for such a board, including both supervision and equalization.⁵⁶ It has been handicapped, however, by inadequate appropriations and has not been fully able to provide the contemplated supervision.

Constitutional or statutory debt limitations.--

Chapter III set as a standard that there should be no

⁵²G.S. 105-278.

⁵³G.S. 105-279.

⁵⁴G.S. 105-291.

⁵⁵G.S. 105-295.

⁵⁶G.S. 105-275 and 105-276.

constitutional limitations on the amount of debt which local governments might incur. North Carolina varies from this standard in having a rather unusual pair of restrictions.

The first provision is quoted rather extensively here because of its interesting nature. It reads in part,

The General Assembly shall have the power . . . to authorize counties and municipalities to contract debts and pledge their faith and credit for the following purposes: To fund or refund a valid existing debt; to borrow in anticipation of the collection of taxes due and payable within the fiscal year to an amount not exceeding fifty per centum of such taxes; to supply a casual deficit; to suppress riots or insurrections, or to repel invasions. For any purpose other than these enumerated, the General Assembly shall have no power, . . . to authorize counties or municipalities to contract debts, and counties and municipalities shall not contract debts, during any fiscal year, to an amount exceeding two-thirds of the amount by which the outstanding indebtedness of the particular county or municipality shall have been reduced during the next preceding fiscal year, unless the subject be submitted to a vote of the people of the particular county or municipality.⁵⁷

The second provision prohibits any local unit from contracting a debt except for "necessary" expenses without a vote of the citizens. What are necessary expenses is a question for court interpretation.⁵⁸ Approval of debt in either case requires a favorable vote of a majority of those voting at an election regarding the question.

The two constitutional provisions cited do not have the inflexibility which is usually associated with

⁵⁷ Article V, Sec. 4.

⁵⁸ Article VII, Sec. 7.

constitutional provisions and therefore are not a major departure from the standard. They cannot be altered as readily as statutory restrictions, but their principal effect is to require most bond issues to be approved by the voters. In the opinion of the author this is not particularly undesirable.

Statutory debt limits, according to the standards in Chapter III, should be based on appraised valuations which are equalized state-wide by the state administrative agency. The North Carolina statutory limitations are based on assessed valuations, and in no sense can the assessments be considered to be equalized state-wide. Thus the limits are subject to all the vagaries of highly variable assessment ratios. This is compounded by the required municipal use of county assessment ratios and consequent unwarranted debt limit problems.

The debt limit should apply to all forms of long-term obligations, including the so-called "self-supporting" or revenue bonds. In North Carolina, revenue bonds which do not include a pledge of the issuing unit's full faith and credit are not included in the debt of the unit. Similarly, the deductions from gross debt which are allowed in computing net debt, to which the limit applies, include bonds issued for water, gas, electric light or power purposes. The latter are all full faith and credit obligations of the issuing unit.

Revenue bonds are specifically authorized by the North Carolina statutes, but are not used primarily to bypass debt limitations. Similarly, special districts are authorized for certain purposes, but again, evasion of the debt limits does not seem to be involved.

The provisions of the North Carolina statutes relative to revenue anticipation notes and bond anticipation notes are consistent with the standards set forth in Chapter III.

Administrative supervision.--One of the fundamental purposes of providing for administrative supervision is to introduce flexibility into an otherwise rigid statutory structure. Although North Carolina has an administrative organization which is substantially equivalent to the recommended division of local government finance, it has not been authorized to mitigate the workings of the statutory provisions. It has no authority, for example, to permit the sale of bonds which would push the total debt of a unit over the statutory limit.

On the favorable side, the Local Government Commission, which is the agency chiefly responsible for supervision of local government debt, provides many valuable services to the local units. The Commission provides skilled assistance to local units in planning bond issues, maintains mailing lists and solicits bids for offerings, awards bonds or notes to the highest bidder, supervises the printing and delivery

of the bonds or notes, and collects and remits the proceeds. In addition, the Commission maintains complete files relating to the outstanding debt of local units, and notifies them at the time for budget preparation of their debt service requirements for the ensuing fiscal year. It also notifies them each month of approaching specific maturities so that they have ample time to forward remittances to their paying agents. Other duties related to financial administration tools and techniques will be discussed in Chapter VIII.⁵⁹

The Local Government Commission of North Carolina, and the Director of Local Government meet virtually all of the standards set in Chapter III with respect to the functions of the state administrative agency except the provision of flexibility in debt limits.

Summary of North Carolina organization for financial administration

The North Carolina Constitution is rather long, but is generally confined to matters of continuing interest and state-wide application. The Constitution leaves the discretion with respect to forms of local government organization

⁵⁹For an excellent exposition of the history and present activities of the Local Government Commission, see John Alexander McMahon, The North Carolina Local Government Commission (Chapel Hill, N.C.: North Carolina Association of County Commissioners, 1960).

almost entirely with the General Assembly. It requires election of county treasurers, but leaves other aspects of financial organization to the Legislature. Both tax rate limitations and debt limitations are included in the Constitution, but the latter are flexible in permitting debt incurrence above limits when approved by the electorate.

The General Statutes are very lengthy and detailed, but provide for a significant degree of administrative supervision. The principal agencies for supervision of local government units are the Local Government Commission and the Director of Local Government which function through a common administrative official who has the titles of Secretary to the Commission and Assistant Director of Local Government. They are supported by a State Board of Assessments and a Department of Tax Research. The principal limiting factor on the effectiveness of the supervisory agencies is a lack of funds.

The statutes authorize but do not require strong executive forms of county government and municipal government, and cities are given extensive powers to revise their charters through local action. The Legislature has issued a clear mandate for unified financial management in local governments and has provided broad fiscal control acts applicable to all units.

A constitutional tax rate limitation applicable to counties is supplemented by statutory limits applying to counties and to municipalities, which, contrary to the standards, also require segregation of the proceeds of particular levies. County levies for school purposes are exempted from the limits. Limits are based on assessed valuations, which are not equalized on a state-wide basis. The State Board of Assessments prescribes forms and procedures for local property tax listing and assessment, but does not do much supervising, except through required reports. Periodic reappraisals of all property are required by statute.

Although North Carolina varies from the standards in having constitutional debt limitations, they simply require that certain issues be approved by the voters of the local governments, thus they are not very restrictive. The statutory debt limits, on the other hand, contain no authority for either administrative or voter relief from their impact.

The above debt limits are based on assessed valuations which are not equalized on a state-wide basis, and the arbitrary working of the limits is increased by the fact that municipalities must use the assessed valuations set by the county assessors. The debt-carrying capacity of a municipality may thus be restricted by the low assessment ratio of the county in which it is located.

The debt limits, contrary to the standards, do not apply to revenue bonds which lack a pledge of the issuing government's full faith and credit, or to certain bonds issued in connection with the establishment or operation of utilities.

In the field of administrative supervision of local government debt, the State of North Carolina is particularly strong. The North Carolina Local Government Commission guides the planning of new debt issues, prepares and distributes notices of sale, receives sealed bids and awards the securities to the highest bidder, delivers the proceeds to the issuing government, and in general, supervises the entire debt creation process. Similar supervision is exercised over debt service, and complete debt records are maintained in the Commission's offices in Raleigh, North Carolina.

In brief, most of the standards identified in Chapter III are recognized in North Carolina, with the exceptions noted, but full implementation of certain aspects of the standards must await greater financial support for the administrative agencies.

CHAPTER VIII

STATE SUPERVISION OF THE TOOLS AND TECHNIQUES FOR FINANCIAL ADMINISTRATION IN THE CASE STUDY STATES

Chapter VII is designed to parallel Chapters IV and V applying the standards set forth in those chapters to the constitutional, statutory, and administrative provisions currently in effect in the two case study states. The discussion will be limited to broad areas considered to be representative of the approaches of the two states to the tools and techniques of financial administration. Only major aspects of the constitution and statutes will be examined.

Tools and Techniques for Financial Administration - Georgia

Budgetary planning and control

Neither the constitution nor the statutes of general application in Georgia require the adoption or maintenance of budgets by local government units. The closest approximation to a plan required by the statutes is the report of the treasurer, required by the quoted portion of a statute: ". . . and on the second Monday in January, annually, to file with the ordinary, a full statement of his account,

accompanied by his vouchers for the preceding year, together with his estimate of the indebtedness of the county for the ensuing year, and the means of providing therefor, . . ."¹

Georgia has no administrative agency charged with general responsibility for supervising local government financial administration. Consequently, an application of the standards of budgetary planning and control discussed in Chapter V would find Georgia's provisions wanting in every particular. There is no official requirement of budgetary procedures.

Accounting and related procedures

The discussion of organization indicated that accounting procedures should be handled by the accounting section of a local unit-wide finance department. The Georgia Constitution and Statutes make no mention of local finance departments, and assign fragments of accounting responsibility to various governmental officials. There is no integrated and over-all treatment of accounting and internal control. The managerial aspects of accounting and financial administration have not received any overt attention. The entire approach to financial administration is characterized by fragmentary statutory prescription with

¹Code of Georgia Annotated (Atlanta, The Harrison Co.), Section 23-1015.

little or no supervision to insure compliance. This is particularly applicable to accounting and internal control.

Fund accounting

Fund accounting, as such, is not mentioned in the Georgia Constitution or Statutes. Certain statutes, such as the one quoted in part here, have the effect of requiring separate funds for some purposes: "The municipal authorities shall cause separate accounts to be kept, on account of all amounts collected and disbursed on account of each of said extraordinary expenses, and all amounts so collected shall be applied exclusively to the extraordinary expenses for which said tax was levied and collected."²

The above statute and the similar ones applicable to counties establish a requirement that at least a general fund and an indefinite number of special revenue funds must be established. The maintenance of separate funds is also implied by a requirement that orders drawn on the county treasury must specify the fund against which drawn.³ However, if the amount of revenue produced by a particular levy exceeds the requirements of the purpose for which it was levied, the excess may in some cases be applied to other obligations.⁴

²Ibid., Section 92-4102. See also Section 92-3708.

³Ibid., Sec. 23-1601.

⁴Robert L. Stoyles, Jr., Handbook for County Commissioners (Athens, Georgia: The Institute of Law and Government of the School of Law, 1962), p. 73.

Georgia's laws do not make for uniformity in fund accounting since there is no clear specification of the funds to be maintained, and no requirement of separate funds applicable to such activities as utilities or other enterprises not supported by taxes. Separate funds may be established for some revenue-producing activities by virtue of their being set up as separate authorities for financing purposes, but in the absence of this situation, they may be merged indiscriminately with other activities.

Types of records

The Constitution of Georgia does not contain any direct references to the forms and types of records to be maintained by counties, cities, or towns.

Several statutes refer to specific records related to financial affairs of Georgia local governments. Most such references are in general terms, specifying the maintenance of such records as a ". . . book of receipts and disbursements. . . ." ⁵ The quotation above is from the act authorizing the establishment of the county manager form of government. This act contains the most complete set of general record requirements set forth in the statutes. The board of commissioners is required to keep records of all "official acts and doings," including a

⁵Code of Georgia Annotated (Atlanta, The Harrison Co.), Sec. 23-908.

minute book, a book of receipts and disbursements, a general ledger, a warrant book, a book containing a complete list of all the real and personal county property, a road register, and a file of all paid warrants and vouchers. In addition the commissioners are directed to maintain such other records as may be necessary to show a complete record of all transactions of the county.

The above act, if coupled with adequate administrative supervision by a state department of local government finance, would establish the basis for a reasonably adequate set of historical records. It is significant, however, that the managerial aspects of financial affairs are ignored here as elsewhere throughout the statutory framework. The act, at present, is of little practical effect since only one county has elected to adopt the county manager form of government.

The more generally applicable statute, setting forth the duties of county treasurers, requires a file of receipts for orders paid by the treasurer, a "well-bound book" in which receipts and amounts paid out are entered, and a "well-bound book" in which county orders or other forms of indebtedness are recorded as presented to the treasurer for payment. The treasurer is also charged with recording the orders of the ordinary levying county taxes.⁶

⁶Ibid., Sec. 23-1015.

The foregoing requirements are most inadequate to assure the maintenance of records according to the standards described in Chapter III. The scope of application of the chapter relating to county treasurers is not clear, because more than one hundred counties have had the office of treasurer abolished by special legislative acts. The duties assigned above may, however, have been shifted, wholly or partly, to some other official.

Although there is no over-all prescription of accounting records, either in the Georgia Constitution or in statutory enactments, which meets the standards previously discussed, there is considerable variation in the adequacy of requirements relating to particular aspects of financial affairs. A number of these are discussed under the heading, "Accounting and Internal control - special areas" below.

Classification of accounts and basis of accounting

No general constitutional or statutory requirements specify either the classifications of accounts or the basis of accounting to be used by local governments in Georgia. Such detailed requirements as exist, however, seem to imply the use of a cash basis of accounting and reporting. There is no suggestion of uniform accounting, and no state-prepared manuals distributed for the benefit of local governments.

Accounting and internal control - special areas

Two standards designed to assure the unit of the receipt of all cash which should be received were identified in Chapter III. First, the collecting agency must be notified of all amounts due and, second, vigorous collection action must be taken.

The first requirement is met to some extent by the requirement that county tax receivers (who receive tax listings from the taxpayers and prepare tax digests) prepare the digests in triplicate. One copy is to be delivered to the tax collector, and serves as his notification of the amounts to be collected. The two remaining copies go to the State Revenue Commissioner, and to the ordinary or other governing authority of the county.⁷ Reasonable uniformity in the listings and digests is achieved through the use of standard forms distributed by the Revenue Commissioner.⁸

Several weaknesses prevent the procedure above from being fully effective in meeting the standard that the collecting agency must be notified of all amounts due. First, it does not extend to all sources of county revenues, and this deficiency is not corrected by other provisions.

⁷Ibid., Sec. 92-6303.

⁸Ibid., Sec. 92-8409.

Second, it does not apply to municipalities, which are left virtually to their own devices in this respect. Third, the receiver is only a "receiver" of returns, not an assessor, a flaw which has been criticized in numerous earlier studies. Finally, the Constitution authorizes the General Assembly to combine the offices of tax receiver and tax collector into the office of tax commissioner,⁹ and this has been done in one-hundred eleven counties.¹⁰ On balance, it can be concluded that the Constitutional, statutory and administrative provisions fall far short of giving assurance that the collecting official is notified of all revenues due the local units.

The second standard, that vigorous collection action must be taken, is perhaps better met with respect to property taxes. The county tax collectors are charged with a duty to diligently collect state and county taxes, to seek out all unlisted property (a duty which is shared by the tax receivers), to issue executions against defaulters and insolvents, and to report their activities in these respects to the Commissioner of Revenue and to the county authorities. The Commissioner or the county authorities are authorized to take action against the collector in the event of his

⁹Article XI, Section I, Paragraph VI.

¹⁰Bureau of Business Research, College of Business Administration, University of Georgia, Georgia Statistical Abstract (Athens: University of Georgia, 1963), p. 340.

negligence or bad faith. These provisions, if observed in practice, would tend to assure vigorous action by county tax collectors. A further incentive is furnished by payment to the tax collectors of commissions based on the amounts collected, including higher rates of commissions on collections in excess of 90 per cent of taxes due according to the net tax digest.¹¹

The county treasurer is also directed to diligently collect all moneys due the county from county officers or others.¹² There is little to assure compliance with the statute, however. No legal prescriptions of importance relate to the proper collection of municipal revenues.

Chapter III specified that control of cash should begin at the point of receipt, using pre-numbered receipts, registers, daily cash reports, and daily deposits. Separation of receipts by funds should be maintained from the point of receipt, deposits should be in the name of a fund or the governmental unit, employees should be bonded, and physical safeguards plus insurance protection should be provided.

The principal law relating to receipt forms requires the tax collectors to keep "stub books" of receipts. These

¹¹Code of Georgia Annotated (Atlanta, The Harrison Co.), Section 92-5304. In some cases the higher rates may apply to collections in excess of 80 per cent of the digests.

¹²Ibid., Sec. 23-105.

are to be detailed receipts, prepared in advance, each showing the name of the taxpayer and the details of the tax levied against him, and having a separate stub showing essentially the same information as the receipt. Pre-numbering is not mentioned.

Neither daily cash reports or the use of registers are required. Tax collectors, treasurers, and certain others are required to keep cash books. The provisions relating to tax collectors are the most specific, requiring a record of all items of cash collected, showing the date collected, amount collected, and the name of the person, firm, or corporation whose taxes were paid.¹³ The other cashbook requirements generally specify only a record of cash received or cash paid out.

Each tax collector in a county of 30,000 or more population is required to pay the state tax he has collected to the State Treasurer whenever the amount on hand reaches \$5,000 and every Saturday must pay the amount on hand whether it is equal to \$5,000 or not.¹⁴ He is also required to remit county taxes to the county treasurer at least weekly and whenever the amount on hand reaches \$3,000.¹⁵

¹³Ibid., Sec. 92-4902.

¹⁴Ibid., Sec. 92-4909.

¹⁵Ibid., Sec. 92-4910.

In counties of less than 30,000 population the amounts on hand must not exceed \$5,000 in either case, and must be paid over at least bi-weekly.¹⁶

Separation of funds, as such, is not specified, but several laws require that taxes levied for special purposes must be held and used only for the specified purposes. Funds raised for debt service, including the proceeds of special assessments, when applicable, must be held in separate funds and used only for debt service. Two such provisions are constitutional¹⁷ and several are statutory.

The general statute of widest application to county or municipal "Officers Collecting, Keeping and Accounting For Public Moneys"¹⁸ requires "prompt" deposit of public funds in a bank or depository. The county or municipal governing authorities are required to designate ". . . one or more solvent banks. . . ."¹⁹ as depositories.

Depository banks are required to give bond and the types of securities eligible for deposit as such bond are statutorily designated. No administrative supervision is specified. The statutes do not specify that deposits must

¹⁶Ibid., Sections 92-4912 and 92-4913.

¹⁷Article VII, Section VII, Paragraph III, and Article VIII, Section I, Para. VI.

¹⁸Code of Georgia Annotated (Atlanta, The Harrison Co.), Chapter 89-8.

¹⁹Ibid., Section 89-811.

be in the name of the governmental unit. "Collecting officers" and "officers to hold public moneys" are required to give bond in amounts specified by the governing authorities of the counties or municipalities unless the amount is fixed by existing general laws. The bonds of tax collectors or tax commissioners collecting state taxes are to be set by the State Revenue Commissioner to the extent of the State tax.

The provisions relating to the handling of and accounting for cash, in summary, are scattered, uncorrelated and incomplete.

Purchase and payment procedures.--The Georgia Constitution and Statutes do not require centralized purchasing by the local government units. The statutes do require certain contracts, such as those pertaining to the construction of public buildings or special assessment projects, to be let on the basis of competitive bids.²⁰ The chapter in the Code which deals with contracts by counties, and which is also made applicable to municipalities and other public bodies, requires such contracts to be in writing and entered on the minutes by the ordinary (or other authority).²¹

²⁰Ibid., Sections 23-1702, et seq., 69-408 and 69-409.

²¹Ibid., Chapter 23-17.

The act also requires the posting of performance bonds by bidders and prohibits attempts to prevent or interfere with competitive bidding. Successful bidders are required to sign oaths that they have not interfered with competitive bidding; and, by a separate chapter, criminal penalties are prescribed for county officers who award contracts without competitive bids, who profit from such contracts.²² Filing of a false oath by a successful bidder is also subject to criminal penalties.²³

To the extent of their coverage, the legal provisions appear reasonably adequate. However, they leave a substantial portion of the expenditures of local governments not covered, and fail to make any provision for the managerial aspects of purchasing. They do not include administrative supervision by the State.

The Georgia statutes place more emphasis upon payment procedures than upon purchase procedures, but nevertheless fall short of the purchasing standards. The deficiencies are of a sort which could be corrected more readily by administrative supervision than by statutory action.

One of the standards listed in Chapter III was that all payments should be by check, signed by the cashier, and should be signed only upon presentation to the cashier of

²²Ibid., Chapter 23-99, Section 23-9904.

²³Ibid., Section 23-9906.

prescribed forms of authorizations. The statutes do not require payment by check, consequently no specifications are set relative to signatures or to pre-numbering. There are some specifications relating to authorizations of payment and related matters.

The statutes covering payment procedures deal almost exclusively with county affairs. The treasurer is designated as the officer to receive and disburse all county funds²⁴ except those otherwise directed by law. As indicated earlier, the office of treasurer has been abolished in more than one-hundred counties, but the duties of the office may remain vested in some other official or officials designated in the local act. Thus, the laws pertaining to treasurers may have fairly wide applicability.

The ordinary (or commissioners) is required to audit all claims against the county and, to the extent that the claim is allowed, to register it and give the claimant an order drawn on the treasurer for the amount, specifying the fund from which it is payable.²⁵

The treasurer is also required "To pay without delay, when in funds, all orders . . .," to take receipts for payments made, to keep a well-bound book in which are entered

²⁴Ibid., Section 23-1016.

²⁵Ibid., Section 23-1601. Certain exceptions to this requirement are provided by other statutes, but this statute is of fairly broad application.

all amounts received or paid out, and to keep a well-bound book in which are entered all county orders or other forms of indebtedness, as they are presented.²⁶

As there is no prescription of budgetary control or centralized purchasing, there are no specification as to control of expenditures by programs, no mention of encumbrances, and no mention of the personnel control procedures suggested in Chapter IV. No mention is made of bank reconciliations and related internal control procedures.

Receivables.--The primary emphasis of the standards relating to receivables as stated in Chapter III was on establishing the accountability of the collecting personnel. The two principal means of accomplishing this purpose were identified as the independent assessment or billing of the amounts due, and the maintenance of control accounts by the separate accounting section. The Georgia Constitution and statutes do not provide adequately for either of these control devices.

As the statutes do not mention finance departments, a discussion of separate assessment and billing for control purposes would not be expected. However, at an earlier date the value of such separation was recognized. This is evidenced by the early provisions for separation of the office

²⁶Ibid., Section 23-1015.

of county tax receiver from the office of county tax collector. The present constitution specifically authorizes the Legislature to combine the two offices, as mentioned earlier, and as this has been done in one-hundred eleven counties, in which the element of control formerly provided has thus been destroyed. The offices of tax receiver, tax collector, or tax commissioner are elective, which also tends to reduce their effectiveness.

Municipalities in Georgia may maintain the desired separation under a statute which authorizes the governing body to appoint a board of tax assessors.²⁷ To the extent that this is done, the desired separation is met as to tax receivables, but the law is permissive rather than mandatory. Beyond this permission, the establishment of accountability independent of the collecting personnel does not seem to have been considered.

The maintenance of control accounts by an independent accounting section has not been specifically required. Certain features of the statutes lend themselves to the maintenance of some control through review procedures which could include such recording.

The first of such provisions requires the county tax receiver or commissioner to file copies of the completed and

²⁷Ibid., Section 92-4001.

adjusted digests, after equalization, with the State Revenue Commissioner, with the ordinary or other county authority, and with the tax collector.²⁸ Where the offices of receiver and collector have been combined into the office of tax commissioner, the commissioner retains one copy of the digest. The digests, when thus filed, could furnish the basis for establishing control accounts. No such duties are specified with respect to municipal tax assessments, but municipal tax assessors are directed to report to municipal authorities as the municipal authorities may require.

County tax collectors are also required to keep detailed cash books in which are recorded the dates and amounts of all receipts and the name of the taxpayer for whom received.²⁹ The amounts of money paid out to the State Revenue Commissioner or to the county authorities must also be recorded in the cash book.³⁰ By July 1 of each year, the collector is required to file the cash book, properly balanced, together with a book listing all uncollected taxes, naming the taxpayers in alphabetical order.³¹ The ordinary

²⁸Ibid., Section 92-6917.

²⁹Ibid., Section 92-4902.

³⁰Ibid., Section 92-4903.

³¹Ibid., Section 92-4905.

or other county authority is required to audit and sign the cash book.

In addition to the preceding, the tax collectors are required to prepare a record of unlisted taxable property discovered by them, and lists of insolvent taxpayers, and to turn them over to county authorities. Insolvent lists are to be allowed only by the ordinary or other county authority, and tax collectors are required to show evidence that executions have been levied against the taxpayers but no property was found from which to collect.

When coupled with reporting requirements, to be discussed below, these procedures and requirements, if properly administered, would provide some control over tax receivables, but they are deficient in the lack of independent information about amounts billed, and, as stated, do not apply to municipalities or to other forms of receivables.

Property records.--The six basic principles underlying procedures for property accounting and control, were expressed in Chapter III.³² The Georgia provisions are so fragmentary that the most feasible analysis is to indicate something of their nature rather than to attempt to examine them against each individual standard.

³²The six principles were quoted from International City Managers' Association, Municipal Finance Administration (5th ed.; Chicago, The Association, 1955), p. 398.

One chapter of the Georgia Code places the ordinary in charge of county property and makes him responsible for any property disposals.³³ Presumably, this power vests in the commissioners in most counties. The ordinary is not specifically required by this chapter to insure any property except volumes of public laws or similar materials furnished by the State. All insurance policies are required to be in the name of the county, and the proceeds are to be used to replace the destroyed property.

Another chapter of the Code places the ordinary in charge of erection, maintenance, and repair of county buildings, and requires him to furnish supplies for county offices.³⁴

A more general chapter of the Code requires all state and county officers, on or before January 15 of each year, to make complete inventories, under oath, of all the public property in their charge. They are required to enter the inventories in books kept for that purpose. An outgoing officer must account and obtain a receipt for all property, entering the receipt in the property book. The new officer is required to examine the inventory, within three months of taking office, and to report anything not turned over to

³³Code of Georgia Annotated (Atlanta, The Harrison Co.), Chapter 91-6.

³⁴Ibid., Chapter 91-7.

him or accounted for by his predecessor. The chapter also requires the publication of a public notice of any plan to sell county real property once each week for four weeks, and then requires a public sale.³⁵

About the only other important provisions relating to property accounting or control are those which specify how bond sinking funds may be invested. The regulations require the investment of certain municipal sinking funds moneys, and authorize but do not require the investment of county sinking fund cash. In either case, all bonds held in the sinking funds, if registerable, are required to be registered in the name of the governmental unit. The types of securities eligible for the investment of municipal or county funds are also specified, as well as certain authorized temporary investments for the proceeds of bond issues.

A few other scattered references directly or indirectly apply to property accounting or control, but taken together they assure little control of acquisition, use, disposition, or accounting for and protecting the properties of local government units. The property inventory provision is a very sound idea, but needs to be related to record and protection requirements and to the other standards listed in Chapter III if it is to be effective.

³⁵Ibid., Chapter 91-8.

Liabilities and surplus.--Neither surplus nor liability accounting is given any important treatment in the Georgia Constitution or statutes. About the only significant mention of debt records is the requirement that the county treasurer maintain a well-bound book in which are entered all county orders or other forms of debt as presented.³⁶ Accounting for surplus is not treated.

Reporting requirements

The discussion of reporting requirements below follows the pattern set in Chapter III, that is, it is divided into external reporting, internal reporting, and reports to state or other agencies.

External reporting.--Reports required to be made to the grand juries are treated, in this discussion, as external reports, as they are to authorities other than those of the governmental unit, but presumably representing the local populations.

The standards listed in Chapter III for external reports expressed the need for complete and fully detailed reports including statements showing financial condition by funds, statements covering fund operations for a complete fiscal period, and fund statements of changes in surplus. Additional supporting schedules were recommended. Nothing

³⁶Ibid., Section 23-1015.

in the Georgia provisions might be considered even to approach such standards. Therefore, it will again be necessary to indicate only the nature of the requirements which do exist.

The act which authorizes counties to adopt the county manager form of government requires the board and manager jointly to publish semi-annual reports within fifteen days after January 1 and July 1. The reports are to be published in the local newspaper and are required to show receipts by sources and disbursements by purposes. In the words of the statute, ". . . and such reports shall not be mere ledger balances, but shall be in such manner and form as to show plainly the revenues of the county, as well as the cost of county government in every branch."³⁷

The same act requires full written statements of the financial condition of the county, to be presented to the grand jury each summer and fall session, and requires such reports to be kept on file by the grand jury.

The preceding requirements are the most complete of any of the external reporting requirements; and, in addition to setting no standards for reporting, are applicable to only one county at present.

The more broadly applicable statute which specifies the duties of county treasurers requires the treasurers

³⁷Ibid., Section 23-910.

"To exhibit to the first grand jury . . . a full statement of the condition of the county treasury up to that time, . . ." and "To publish . . . a copy of his annual statement."³⁸ Again, no standards are established, and administrative supervision is lacking to assure the maintenance of adequate standards.

The ordinaries, treasurers, clerks of superior court, and sheriffs are also required to make returns, under oath, to the grand juries on the first day of each term. The reports are required to cover receipts by sources, expenditures, and to be supported by vouchers and other records.

It is doubtful that much worthwhile external supervision over county affairs results from the above acts. Municipal reporting is left very much to the discretion of the municipal governing body.

Internal reporting.--The statutes require the ordinaries or other authorities in charge of county affairs to compel the treasurers to appear before them at least twice each year to render an accounting and exhibit their books and records.³⁹ On the second monday in January each year the treasurers are required to file with the ordinaries or other county authorities full statements of their accounts,

³⁸Ibid., Section 23-1015.

³⁹Ibid., Section 23-1024.

accompanied by their vouchers for the preceding year, together with estimates of indebtedness for the coming year and the means of providing for payment of the obligations.⁴⁰

The most numerous or lengthy statutes relating to internal reporting are those which require reports by tax collectors. The collectors are required to make weekly reports of amounts collected,⁴¹ semi-annual reports of ". . . their official act^ons and doings respecting the county tax and funds, . . ." ⁴² and annually, on or before April 20 to file an accounting in which their accounts are fully stated, and uncollected items on the tax digest listed in detail. The reasons for failure to collect must be set forth with respect to each uncollected item. All of the reports listed in this paragraph are to be made to the ordinaries or other authorities in charge of county affairs.

The above laws, if carefully administered, could provide a degree of control over tax collections. With respect to the treasurers, the regulations do not inhibit adequate reporting, but fail to set standards which would tend to assure such reporting. Again, the provisions do not apply to municipal tax collectors or treasurers. As observed

⁴⁰Ibid., Section 23-1015.

⁴¹Ibid., Section 92-4911. Bi-weekly reports are required of tax collectors in counties of less than 30,000.

⁴²Ibid., Section 92-4906.

earlier, consideration has not been given to potential managerial uses of financial information.

Reporting to state or federal agencies.--Georgia lacks requirements for comprehensive reporting to state agencies; and, as in Chapter III, reporting to particular state agencies or to the federal government will not be discussed.

There is no division of local government finance in Georgia, and the closest approach to the establishing of state supervision is the supervision by the State Revenue Commissioner over the local property tax. The attention of the Commissioner is necessarily focused more upon the collection of the State's tax than upon the supervision of local affairs. This is expressed by the following quotation from the statutes which prescribe the duties and authority of the Commissioner: "(c) supervise all tax administration throughout the State subject, however, to the sovereign rights of the counties to regulate their own affairs; . . ." ⁴³

The principal reports required to be filed by the tax collectors with the State Revenue Commissioner are copies of those reports already described under internal reporting.

⁴³Ibid., Section 92-8406.

Auditing

Regular independent audits are not generally required by the Georgia Constitution or by the statutes. They are required if the county manager form of government is adopted, and are authorized ^{by} not required in other cases.⁴⁴

Examination of Georgia section of state supervision of the tools and techniques for financial administration

Georgia has no constitutional, statutory, or administrative budgetary requirements applicable to local government units. Accordingly, the standards relating to budgetary planning and control are completely unfulfilled to the extent of the state's responsibility therein.

The references to accounting and internal control are extremely fragmented and incomplete. They are scattered through the statutes without apparent pattern, almost without mention of administrative supervision. Neither the Constitution nor the statutes specifically mention fund accounting but the tax limitation laws also require that the proceeds of certain levies be kept separate from those of other levies, and that separate accounts be kept of the amounts received and disbursed. There is nothing in the requirements to promote or even to suggest any uniformity of fund accounting among the local governments.

⁴⁴Ibid., Sections 23-911 and 23-1301 respectively.

The Constitution is silent regarding forms of records to be maintained by local governments and the several statutory references are in very general terms. For example, a "book of receipts and disbursements" is typical of the vague terms used in setting forth the requirements. The act authorizing the adoption of the manager form of government is somewhat more specific than any other statute, but has been adopted by only one county, and thus is not of great significance. There are no requirements relative to either uniform classifications of accounts or the basis of accounting, but the use of a cash basis of accounting seems to be implied in some statutes.

The internal control aspects of accounting and organization receive almost no attention in either the Constitution or the statutes. The important separation of such functions as the assessment and billing of taxes or other revenues from the collection of the revenues is deliberately violated. The constitution specifically authorizes the General Assembly to combine the offices of tax receiver (an official concerned with the development of assessment information) with the office of tax collector, and this has been done in one hundred eleven counties. Requirements relating to the proper collection of revenues, accounting for the proceeds of tax levies or other revenues, and the depositing of funds are very weak. Centralized

purchasing is not required, and the requirements pertaining to the awarding of contracts, including the avoidance of conflicts of interest, are weak, but do provide some protection if enforced.

There are more extensive requirements concerning payment procedures than concerning either receipts or purchasing procedures, but they apply largely to counties and do not mention budgetary controls or the managerial use of disbursement information. There is some theoretical review of the work of the tax collectors and tax commissioners by the grand juries and by the State Revenue Commissioner, but its effectiveness is questionable. There is also a potential element of internal control in a requirement that county officers make complete annual inventories, under oath, of all the public property in their charge, and a few other scattered efforts toward better control, but on balance, the entire system is very weak.

The reporting requirements in Georgia fall short of the standards previously discussed to an even greater extent than do the accounting and internal control requirements. They are almost non-existent and fall short of the standards in almost every respect. There are no generally applicable audit requirements. Due to the myriads of local laws and constitutional amendments of local application, it is not feasible to evaluate the extent to which the weaknesses of the general legal and administrative structure are offset by local variations.

Tools and Techniques for Financial Administration - N.C.

The standards for financial organization called for a centralization of the supervision of financial affairs in a finance director for each local unit. The office of county accountant or municipal accountant, as prescribed by the General Statutes of North Carolina is essentially equivalent to the office of finance director in the recommended organization. Consequently, the responsibility for the budgetary procedures, and the accounting, internal control, and reporting discussed below rests primarily upon the accountant in each instance.

Very few constitutional provisions apply to the tools and techniques of financial administration in North Carolina. Therefore, except where specifically mentioned, there are no constitutional provisions of importance related to the subjects under discussion.

Budgetary planning and control in North Carolina

Local government budgetary procedures are not constitutionally regulated in North Carolina. Both counties and municipalities are subject to budgetary requirements established under the County Fiscal Control Act⁴⁵ and the Municipal Fiscal Control Act,⁴⁶ respectively.

⁴⁵General Statutes, Chapter 153, Article 10.

⁴⁶Ibid., Chapter 160, Article 33. The entire discussion of budgetary planning and control is based on these two acts except where otherwise specifically indicated.

The budgetary requirements prescribed by the two acts are so nearly identical that only the county act will be discussed. The first standard for budgets identified in Chapter III was that budgets should be organized according to programs and activities. Although program budgeting is not specifically mentioned in the statutes, it may be accomplished to some extent because the budget is required to show appropriations by funds, departments, and activities. The probability that the financial portion of the budgets will be drawn according to programs is increased by the program basis of the standard chart of accounts published by the Local Government Commission for the use of local units.

The various department heads of the local units are required to file budget statements with the accountant prior to June 1 each year, the date to be set by the accountant. The expenditures of the then current and preceding year and anticipated requirements for the ensuing year are required to be stated by amounts spent or to be spent for each object of expenditure. No specific requirement of statistical data is included, but the accountant may require such supporting information as he sees fit.

The statutory budget requirements apply only to current years and no provision is made for long-term budgets. The proper distinction between current expenditures

and capital outlays and the need for long-range budgets are pointed out, however, in the Municipal Accounting Manual distributed by the Local Government Commission to both municipal and county accountants.⁴⁷

The accountant is required to prepare a budget estimate for the governing body and submit it to that body not later than the first Monday in July each year. He may submit it at an earlier date with the approval of the board. Earlier submission is most desirable as the fiscal year of all units begins on July 1.

Immediately after submission of the budget estimate and at least twenty days before adoption of the budget resolution, the board is required to file a copy of the budget estimate with the clerk of the board where it is to be available for public inspection. In addition copies are to be made available to newspapers published in the county, and a notice that the estimate is on file with the clerk must be published or posted. This requirement gives the taxpayers an opportunity to be heard, as recommended in the standards.

The time set for adoption of the budget is at least twenty days after publication of the budget estimates but not later than July 28. The budget must be adopted by a

⁴⁷N.C. Local Government Commission, Accounting Advisory Section, Municipal Accounting Manual (Raleigh: The Commission, 1961), p. 14.

budget resolution, which has the force and effect of law, and must be recorded on the minutes of the board of county commissioners. The statutory rules for the budget procedures are substantially in accordance with the standards except that they do not provide that the process must be completed prior to the start of the budget year which begins on July 1.

The County Fiscal Control Act also requires that the budget be balanced as to each fund, and that revenues be estimated on a cash basis. Operating deficits from the preceding year must be provided for as must certain revenue anticipation notes carried forward from the preceding year.⁴⁸

Copies of the budget resolution are required to be filed with the county treasurer and the county accountant. The budget resolution as adopted is binding on all departments until formally amended by the board of commissioners. The board may transfer appropriations but may not increase the total amounts appropriated except to the extent of previously unappropriated surplus or the amount by which total realized revenues to date exceeds the total amount estimated in the budget for and within a particular fund.

The statutes specify that the accountant must keep appropriation-expenditure accounts as set forth in the standards in Chapter III. The particular accounts for

⁴⁸G.S. 153-73.

recording revenues as well as the importance of adequate revenue and expenditure controls and the proper evaluation of results against plans are stressed in the Municipal Accounting Manual. In addition, the budgetary reports and the proper administrative use of the reports are discussed in the manual.

Summarizing the budgetary regulations, the statutory provisions are strong with respect to the planning and adoption of the budget and the formal observance of expenditure controls. Full achievement of the standards, however, depends heavily on the administrative efforts of the Local Government Commission. The Commission must supplement the statutes particularly in the areas of revenue administration and in the broader managerial use of the budget procedures. The efforts of the Accounting Advisory Section of the Commission, including its manual and field services, are contributing to the fulfillment of this requirement.

Accounting and related procedures

The first standard identified with respect to accounting procedures was that the records should provide for the proper separation of the affairs of the several funds of the units as fiscal and accounting entities. This is specifically required of both counties and cities by the North Carolina General Statutes.⁴⁹ Both the types of funds

⁴⁹G.S. 153-114 and G.S. 160-409, respectively.

specified in the law and the related materials in the Municipal Accounting Manual⁵⁰ of the Commission are so closely equivalent to the standards set in Chapter IV that no detailed discussion appears necessary.

Types of records

The specific statutory regulations relating to records are very limited. The following prescriptions from the duties of the county accountant are typical of those imposed on both county and municipal accountants. "He shall keep or cause to be kept a record of the date, source, and amount of each item of receipt, and the date, the payee or contractor, the specific purpose, and the amount of every disbursement or contract made; and he shall keep or cause to be kept a copy of every contract made requiring the payment of money."⁵¹

The major section relating to budgetary accounting reads:

Accounts shall be kept by the county accountant for each appropriation made in the budget resolution or amendment thereto, which appropriations shall be classified under the various funds maintained as required in G.S. 153-114, and every warrant or order upon the county treasury shall state specifically against which of such funds the warrant or order is

⁵⁰Accounting Advisory Section, N.C. Local Government Commission (Raleigh: The Commission, 1961), pp. 32, 33, 73-83.

⁵¹G.S. 153-116.

drawn; information shall be kept for each such account so as to show in detail the amount appropriated thereto, the amount drawn thereupon, the unpaid obligations charged against it, and the unencumbered balance to the credit thereof.⁵²

Of more far-reaching importance is the section which gives the Director of Local Government authority to devise and require uniform accounting systems, as quoted in part here:

The Director of Local Government shall have the power to devise and prepare for use in the local units uniform accounting and recording systems, together with blanks, books, and necessary methods; uniform classifications of revenue and expenditures, and uniform budget blanks and forms; . . . The Director shall have the power to require the use of such systems, books, forms, classifications and budgets as provided herein by officers or employees of local units, and to enforce the use of the same.⁵³

Under the authority granted in the quoted statute, the Director has issued the Municipal Accounting Manual already mentioned. Among the provisions of the manual are the use of complete, self-balancing ledgers and adequately detailed supporting records. Both the objectives of and the mechanics of the record keeping system, including journals, ledgers, reports, documents and forms, and other aspects are discussed in the manual. While the quoted statute seems to stress uniformity, under the authority

⁵²G.S. 153-133.

⁵³G.S. 153-30.

granted by another portion of the statute, the Director has consistently stressed the maintenance of minimum standards and has permitted local governments to go beyond the minimum requirements on their own initiative. He has also approved existing systems which substantially meet the requirements set forth by his agency.⁵⁴ The regulations in this respect meet fully the standards set in Chapter III. Due to the limited numbers of personnel available to the Local Government Commission and the Director, the standards have not been completely implemented in practice, but substantial progress has been made in this direction.

Classification of accounts

The standards with respect to classification of accounts were that the classification of the National Committee on Governmental Accounting⁵⁵ be used, modified only as necessary to fit the specific needs of the local units, and that the terminology and classification be used consistently throughout all funds, and in the budget, the accounting records, and the financial reports.

The Municipal Accounting Manual uses the National Committee classifications with only minor modifications and provides for their consistent use in budgets, accounts, and

⁵⁴Ibid.

⁵⁵National Committee on Governmental Accounting, A Standard Classification of Municipal Accounts.

reports. Thus, it is consistent with the standard. The chart of accounts is designed primarily for municipalities, however, and does not fully meet the needs of county accountants with respect to particular classifications.

Basis of accounting

The basis of accounting set in the standards was a combination of a cash basis with respect to revenues and an accrual basis with respect to expenditures. The use of encumbrance accounting was also recommended. The use of this modified basis is made necessary by the North Carolina statutes, although the prescribed basis is not identified by any name.

The intention of the Legislature with respect to revenue accounting is made clear in two statements which read, in part, ". . . to the end that every county in the State may balance its budget on the basis of actual cash receipts within the budget period . . ." ⁵⁶ and "The 'surplus' of a fund at the close of a fiscal year is the amount by which the cash balance exceeds the current total of liabilities, the encumbrances, and the taxes or other revenues collected in advance." ⁵⁷ The second statement quoted also makes it clear that with respect to expenditures,

⁵⁶G.S. 153-140.

⁵⁷G.S. 153-114.

the requirement goes beyond the usual accrual basis and reduces surplus by the amount of encumbrances. If the reduction of surplus by encumbrances results in the treatment of commitments as expenditures before the goods or services are received, it is inconsistent with the matching process discussed in the standards.

Accounting and internal control - special areas

Cash receipts.--The standards set in Chapter III were those designed to insure that all funds which should be received are received; that all funds received are properly accounted for; and that cash must be properly protected and paid out only upon proper authorization.

To assure that all cash which should be received is received, the collecting agency should be kept fully informed as to amounts due, and should make vigorous efforts to collect. With respect to the first point, the statutes require the appointment of a tax supervisor by the counties⁵⁸ but make no similar provision for cities and towns. The supervisor has the general responsibility for the preparation of the tax bills and scrolls for the county. The product of his office serves as notice to the tax collector of amounts due. Similar scrolls and tax bills are required to be used by municipalities, although no tax supervisor is specified.

⁵⁸G.S. 105-283.

The above procedures, even if carefully applied, do not cover all sources of receipts, nor are they adequately covered by the statutes. The local finance department organization recommended in the Municipal Accounting Manual, however, includes a section for assessments and billing with responsibility for establishing all amounts due.⁵⁹ The section is also responsible for notification to the collectors of the amounts due so that the collectors may proceed with the collection thereof.

The tax collectors, both of counties and of municipalities, are required to ". . . employ all lawful means . . ." ⁶⁰ for the collection of taxes. The collectors are also responsible for the collection of privilege license charges. The legal means provided include sale of tax liens, and foreclosure as well as such other devices as garnishment proceedings. This also is limited to taxes and does not cover such other forms of receivables as utility accounts or other service charges. Such additional charges are within the scope of the duties assigned to the collection section in the Municipal Accounting Manual.⁶¹

The statutory provisions mentioned above are inadequate to meet the standards identified in Chapter III, but

⁵⁹Accounting Advisory Section, N.C. Local Government Commission (Raleigh: The Commission, 1961), p. 7.

⁶⁰G.S. 105-375.

⁶¹Accounting Advisory Section, N.C. Local Government Commission (Raleigh: The Commission, 1961), pp. 7, 29.

as supplemented by the Manual they should, if fully observed, satisfy the standards.

To assure proper recording of cash received, it is necessary to establish control at the point of receipt. For this purpose, the use of pre-numbered receipt in multiple copies, the use of recording registers, and the preparation of daily cash reports were prescribed. The North Carolina statutes are quite general in their provisions relating to cash receipts, the following quoted requirement being typical: "He shall keep or cause to be kept a record of the date, source, and amount of each item of receipt, . . ."⁶² The requirements are somewhat more specific regarding the procedures of the tax collectors, as the prescribed forms and procedures affect both billing and collection.

The statutes are again supplemented by prescribed procedures in the Municipal Accounting Manual which are substantially parallel to the standards above.⁶³

Additional standards listed in Chapter III were daily deposits of all moneys received, in approved depositories, and in the name of the governmental unit or of a particular fund. The separation of receipts by funds should

⁶²G.S. 153-116.

⁶³Manual, p. 30.

ordinarily occur at this point. All of these standards and employee bonding standards are met either by provisions of specific statutes or of the Municipal Accounting Manual.

Purchase and payment procedures.--The statutes impose a duty on the county boards of commissioners to ". . . provide for the purchasing of supplies for the different departments of the county government in such manner as may prevent waste and duplication in purchasing, and may obtain the advantage of purchasing in larger quantities. To that end the board may designate some competent person, . . . as purchasing agent, . . ." ⁶⁴

The statutory treatment does not make centralized purchasing mandatory for counties, and no similar provision applies to municipalities. Centralized control over expenditures to assure compliance with the budget appropriations, however, is mandatory for both counties and municipalities. The accountant in both types of units is made responsible for checking each purchase order, contract, or payment warrant before it can be approved. In each case he must sign a statement that an appropriation balance sufficient to cover the obligation is available and unencumbered, and must encumber the appropriation account by the estimated amount of the obligation. ⁶⁵ Proper procedures for centralized

⁶⁴G.S. 153-27.

⁶⁵G.S. 153-130, 153-131 and G.S. 160-411.

purchasing and for meeting the above requirements are set forth in detail in the Municipal Accounting Manual.⁶⁶

The second portion of the standards for purchase and payment procedures, as identified in Chapter III, requires the correlation of payment procedures with the purchase control procedures. The General Statutes of North Carolina meet this standard, both as to counties and as to municipalities.

The regulations, quoted here, for payments by counties are essentially the same as those applicable to municipalities, and read "No bill or claim against the county or any subdivision shall be paid unless the same shall have been approved by the head of the office, department, institution, or agency for which the expense was incurred. . . ." With minor exceptions, the bill must also have been approved by the county accountant and must be paid by a warrant or order on the county treasury or county depository. Again subject to minor exceptions, the warrant or order must bear the following statement, signed by the accountant: "Provision for the payment of this warrant (or order) has been made by an appropriation duly made or a bond or note duly authorized, as required by the 'County Fiscal Control Act'."⁶⁷

⁶⁶Accounting Advisory Section, N.C. Local Government Commission (Raleigh, The Commission, 1961), pp. 17-21.

⁶⁷G.S. 153-131.

Receivables.--Control over receivables is heavily dependent upon proper separation of assessment and billing from collection procedures, as was advocated in the standards for finance department organization. The North Carolina Statutes require the appointment of a county tax supervisor, which, by implication at least, is distinct from the office of the collector.⁶⁸ No such separation is specified for municipalities, and separation is often ignored in practice. The Municipal Accounting Manual⁶⁹ has stressed the importance of independent billing, however, and the Accounting Advisory Section has been making efforts to promote sound practices.

Property records.--The statutes in North Carolina give little consideration to property accounting. There are acts authorizing local units to acquire property⁷⁰ and to dispose of property,⁷¹ and regulating the making of contracts relating to the acquisition of property,⁷² but virtually no mention of records. The supervision of property records and protection by the state depends

⁶⁸G.S. 105-283.

⁶⁹Manual, pp. 27-29.

⁷⁰G.S. 160-240 et seq.

⁷¹G.S. 160-59 et seq.

⁷²G.S. 143-128 et seq.

primarily upon the recommendations contained in the Municipal Accounting Manual and upon the work of the Accounting Advisory Section of the Local Government Commission.⁷³ The Manual contains recommendations substantially in agreement with the standards set in Chapter III.

Liabilities.--The accounting for liabilities is left largely to the discretion of the Director of Local Government as are most aspects of local unit accounting. The provisions made for liability accounting, as set forth in the Municipal Accounting Manual⁷⁴ are based on the recommendations of the National Committee on Governmental Accounting⁷⁵ and are consistent with the standards set in Chapter III.

Surplus.--Surplus is strictly defined as ". . . the amount by which the cash balance exceeds the total of current liabilities, the encumbrances, and the taxes or other revenue collected in advance" by the North Carolina statutes.⁷⁶ The definition goes a little beyond the standard set in Chapter III, in that encumbrances are among the deductions from cash in arriving at a surplus balance.

⁷³Manual, pp. 39-41.

⁷⁴Ibid., pp. 77-81, 95, 98-105.

⁷⁵National Committee on Governmental Accounting, Municipal Accounting and Auditing (Chicago: Municipal Finance Officers' Association, 1951).

⁷⁶G.S. 160-409.

Reporting requirements - North Carolina

External reporting.--Two sections in the North Carolina General Statutes indicate the nature of the statutory requirements for external reporting. As is the case with many other provisions, they are very general and brief.

The county accountant is required "As soon as practicable after the close of each fiscal year . . ." to prepare financial statements and cause them to be published in a county newspaper, or if no newspaper is available, to post them on the courthouse door and at least three other public places in the county. The statements are to include ". . . a statement of the financial condition of the county, containing such figures and information as the county accountant may consider it advisable to publish, . . ." Other information which the county accountant "may" include is also mentioned. The only compulsory portion is the requirement that a statement be published.⁷⁷

The requirement applicable to municipal accountants differs from the preceding in an interesting way. It is virtually identical with the above provisions except that "may" has been replaced by "shall." The applicable section reads ". . . shall include a statement of the assets and

⁷⁷G.S. 153-123.

liabilities of [the] several funds of the municipality as of the close of the preceding fiscal year, together with a summary statement of the revenue receipts and expenditures of such funds in the preceding year, a statement of the bonded debt of the municipality as of the close of the preceding fiscal year, and a statement of assessed valuations, tax rates, tax levies, and uncollected taxes for the preceding three fiscal years."⁷⁸ The wording of the county act was changed to "may" in 1955.

The Director of Local Government has not specified any requirements for publication of reports by local units, however, the reports to the Director, discussed below, are open to the public at the offices of the Local Government Commission. They are used extensively by bond rating agencies as well as other state and federal agencies but are not tabulated and published by the Director. They are often used by the Local Government Commission personnel in connection with financing proposals by the various local governments.

Internal reporting.--North Carolina lacks important statutory regulations the nature of or contents of local unit internal financial reports. The interim or special internal reports are not discussed in the Municipal

⁷⁸G.S. 160-410.7.

Accounting Manual⁷⁹ but many of the statements discussed in the manual could serve equally well as monthly or annual statements.

The Municipal Accounting Manual⁸⁰ gives extensive coverage to the financial statements of the various funds as well as to statements of general fixed assets and general bonded debt. The pro-forma statements set forth in the Manual are those recommended for internal use as well as for use in the audited reports submitted to the Director of Local Government. They are based directly upon the recommended statements contained in the National Committee on Governmental Accounting's Municipal Accounting and Auditing.⁸¹ Inasmuch as the standards set in Chapter III are based directly on the same publication, it is not necessary to discuss the North Carolina provisions except as they depart from the recommendations of the National Committee.

The recommendations of the Accounting Advisory Section depart at two major points from those of the National Committee on Governmental Accounting. The first of these is with respect to the cash basis of accounting for revenues,

⁷⁹Manual, pp. 85-104.

⁸⁰Ibid.

⁸¹National Committee on Governmental Accounting, Municipal Accounting and Auditing (Chicago: The Municipal Finance Officers' Association, 1951).

which has already been discussed. The Accounting Advisory Section (and the North Carolina General Statutes) take the position adopted in this paper.

The second point of difference concerns the accounting requirements of utilities. The National Committee has taken the position, which is also taken in this paper, that accounting for utilities should be as nearly on a commercial basis as possible. The Accounting Advisory Section, although not taking a contrary position, has not included provisions for fixed assets or depreciation accounting in the recommendations relating to utility funds. Similarly, bonded debt of utilities is not included among the fund accounts.

The recommendations for North Carolina local units, as contained in the Municipal Accounting Manual, include all of the statements listed under external reporting in Chapter III except the analysis of general fixed assets by function and activity and the two analyses of changes in general fixed assets by function and activity. In addition, they recommend substantially all of the statistical tables illustrated in Municipal Accounting and Auditing.⁸²

The principal weaknesses in the recommendations of the Municipal Accounting Manual⁸³ with respect to internal reporting are the failure to illustrate the work-load

⁸²Ibid.

⁸³Ibid.

statements to be used in conjunction with the financial budgetary statements, and the absence of the cash requirements work sheets and statements although both work-load and cash requirements accounting and reporting are advocated.

The recommendations contained in the Manual,⁸⁴ together with the related statutory requirements, if fully implemented, would substantially meet the standards set in Chapter III.

Reporting to state agencies.---All local governments are required to make reports to the State Board of Assessments regarding tax levies and other revenues.⁸⁵ The information from such reports is used by the State Department of Tax Research, together with information from other sources, in preparing its biennial reports. The reports of the Department of Tax Research are concerned solely with revenues. Other reports are required by other agencies concerned with particular aspects of local government affairs. The reports of particular interest for present purposes are those which must be made to the Director of Local Government.

Local units are required to make semi-annual reports to the Director regarding the status of any sinking funds

⁸⁴Ibid.

⁸⁵G.S. 105-335.

or other funds in their possession.⁸⁶ They are also required, or more accurately, the independent auditor is required to file a copy of his completed report with the Director of Local Government.⁸⁷ The Director also has authority to require local units to furnish monthly or annual statements showing the financial condition, budget position, or operations for any period of time.⁸⁸ In practice, the Director has tended to rely on the audit reports for the general financial information. The debt and sinking fund statements have also been used regularly.

The division of reporting between the Local Government Commission and the State Board of Assessments (and the reporting of revenue data by the Department of Tax Research) illustrates the need for unifying supervisory processes in one department or agency.

The requirements of the statutes and the authority granted thereunder to the Director of Local Government are adequate to achieve compliance with the standards set in Chapter III insofar as regular financial statements are concerned. Except as to compliance with prescribed forms and procedures, the Director is not given any specific

⁸⁶G.S. 159-24, 159-27, 159-29.

⁸⁷G.S. 153-146.

⁸⁸G.S. 153-30.

authority to review local unit budgets, however, and copies of the budget do not need to be filed with the Director. This is an area of important weakness in the present provisions in North Carolina.

Auditing requirements in North Carolina

It was indicated in Chapter III that the local units should have the option to engage independent public accountants or to call upon the division of local government finance for auditing services. In North Carolina they may call upon independent auditors, subject to approval by the Director of Local Government, but the Director has not maintained a staff of auditors to conduct local audits. There is sufficient authority in the statutes, but not sufficient funds in the appropriations.

No local unit may hire an auditor without the advance approval of the Director of Local Government, and the contract for an audit must be on forms provided by the Director.⁸⁹ The Director has made it a practice in recent years to approve contracts only with certified public accountants, with few exceptions, and has in all cases established the standards to be met in conducting the audits. These standards are presently set forth in the Minimum Standards of Audit Procedures and Reporting which was prepared

⁸⁹G.S. 153-144.

jointly by the North Carolina Association of CPAs and the Local Government Commission staff.⁹⁰

No auditor may legally be paid for his services until his claim for payment has been submitted to and approved by the Director of Local Government.⁹¹ The Director will not approve the claim until a complete audit report, satisfactory to the Director, has been received in the Director's office in Raleigh. As a result of this requirement, a relatively complete file of audit reports is obtained.

The statutory provisions and the requirements of the Director are fully adequate to meet the standards set herein. Nevertheless, the statutes do not specifically require that all units have annual audits. While the Director very probably has adequate authority to require all units to submit audited annual reports, he has not done so. It must be concluded, therefore, that although an examination of the files of the Local Government Commission discloses very broad coverage of the units by audit reports, a potentially material weakness exists.

Examination of North Carolina section of state supervision of the tools and techniques for financial administration

The North Carolina requirements relative to the tools

⁹⁰ Accounting Advisory Section, North Carolina Local Government Commission, Minimum Standards of Audit Procedures and Reporting (Raleigh: The Commission, 1960).

⁹¹G.S. 153-147.

and techniques for the financial administration of local governments are almost exclusively statutory or administrative. The following paragraphs summarize the evaluation of the major aspects of the requirements as measured by the standards identified earlier.

The budgetary requirements in North Carolina are strong as they pertain both to counties and to municipalities. They emphasize careful planning and formal adoption of the budget, the observance of a budget calendar, the limitation of expenditures to appropriations and careful expenditure controls, and fund and activity breakdown of the budgetary plan. Full achievement of the standards depends heavily upon the administrative agency, the Local Government Commission, particularly in the areas of revenue administration and the managerial uses of the budget.

Certain requirements relative to accounting records and procedures appear in the statutes, but the primary source of such requirements is the Local Government Commission. The requirements of the Accounting Advisory Section of the Commission are so closely identical with the standards as to require no separate discussion. The over-all evaluation is that the standards are met in substantial part, and that the weaknesses, listed below, are comparatively minor.

The most important weaknesses found were the lack of adequate discussion in the Commission's manual of managerial cash flow statements and procedures, failure to illustrate, also in the Commission's manual, statistical and work measurement reports to support the budgetary financial reports, inadequate requirements relative to the separation of the billing and collection functions in municipalities, failure to require annual audits of all local governments,⁹² and lack of any administrative preview of budgets. Most of the deficiencies found are of a type which can be corrected by administrative action. The accomplishment of such action will depend heavily upon the willingness of the state to provide financial support for the Local Government Commission.

⁹²A check, by the author, of the files of the Local Government Commission discloses, however, that virtually all cities and towns within the scope of this study, and almost all counties annually have independent audits and file reports with the Commission.

CHAPTER IX

AN ANALYSIS OF RESPONSES TO THE LOCAL GOVERNMENT QUESTIONNAIRE

In the examination of the two case study states which has preceded this chapter the emphasis has been upon the constitutional, statutory, and administrative measures by which the states have attempted to encourage desirable financial practices by their local units. The extent to which local governments in the two states observe financial administration practices which are consistent with the standards set forth earlier was the subject of a questionnaire distributed by the author. This chapter is concerned with the replies which were received in response to the questionnaire and, briefly, with information from other sources regarding the forms of organization adopted by the cities, towns, and counties in the two states.

As was stated in the discussion of standards, the form of organization chosen by the local government plays an important part in facilitating or inhibiting sound practices in financial administration. The most desirable form, according to the standards is the strong executive form. The following table shows the extent to which local governments have adopted either the city manager form or the county manager form in the two states.

TABLE 9

LOCAL GOVERNMENTS HAVING MANAGERS, GEORGIA AND
NORTH CAROLINA, 1963

Size (population) and type of governmental unit	Number of units in group	Number of units with managers	Per cent of units with managers
Georgia cities, 5,000-10,000	26	13	50
over 10,000	33	18	55
Georgia counties (all sizes)	159	1	.6
North Carolina cities, 5,000-10,000	26	15	58
over 10,000	35	31	89
North Carolina counties (all)	100	17	17

Source: International City Managers Association, The Municipal Year Book, 1963 (Chicago: The Association, 1963), pp. 555-607. Letter from Mr. John Alexander McMahon, General Counsel, North Carolina Association of County Commissioners, Chapel Hill, North Carolina, October 31, 1963.

In both states an appreciable number of local governments are organized on a strong executive basis. The percentage having managers among the cities over 10,000 population is higher in both states than the percentage among the smaller units, but the difference is greater in North Carolina. A significantly larger percentage of cities and towns in North Carolina have managers than do the cities of Georgia, but the difference is even more pronounced when the counties are compared. In this area, North Carolina leads 17 to 1. In addition, there are three counties in North Carolina with full-time administrative officers, and a

number having strong chairmen of the county commissioners or having substantial authority centralized in the county accountant. There are also some strong major cities, but the figures regarding these and all units under 5,000 in population were not listed in the quoted sources.

Questionnaire results

The author's questionnaire was distributed to all counties in both states, and to all cities and towns having populations in excess of 1,000 inhabitants. The tables below indicate the extent of the responses received. The questionnaire, together with detailed tabulations of the responses are reproduced in Appendix B.

TABLE 10

RESPONSE TO QUESTIONNAIRES GEORGIA AND
NORTH CAROLINA CITIES AND TOWNS

Size of unit (population)	Number distributed		Number of Responses		Percentage response	
	Ga.	N.C.	Ga.	N.C.	Ga.	N.C.
1,000 - 2,499	109	109	7	29	6	27
2,500 - 4,999	55	45	23	23	42	51
5,000 - 9,999	26	26	12	13	46	50
10,000 - 24,999	22	21	16	13	73	62
25,000 - 49,999	5	7	3	6	60	85
50,000 - 99,999	3	4	1	4	33	100
100,000 & over	3	3	3	2	100	67
	<u>223</u>	<u>215</u>	<u>65</u>	<u>90</u>	<u>29</u>	<u>42</u>

TABLE 11

RESPONSE TO QUESTIONNAIRE GEORGIA AND NORTH CAROLINA COUNTIES

Size of unit (population)	Number distributed		Number of responses		Percentage response	
	Ga.	N.C.	Ga.	N.C.	Ga.	N.C.
Less than 5,000	11	1	0	0	0	0
5,000 - 9,999	54	11	8	5	15	45
10,000 - 24,999	64	28	11	14	17	50
25,000 - 49,999	21	30	6	17	29	57
50,000 - 99,999	2	22	1	15	50	68
100,000 & over	7	8	5	5	71	63
	<u>159</u>	<u>100</u>	<u>31</u>	<u>56</u>	<u>19</u>	<u>56</u>

It is immediately apparent from the tables above that (1) the questionnaires produced a significantly greater response in North Carolina than in Georgia, and (2) that the percentage of response tends to increase directly with the population of the unit. It is suspected, although not proved, that the relatively low percentage of response from Georgia counties, cities, and towns is indicative of a lower level of financial administration practices among the non-reporting units.

The questionnaire was divided into sections corresponding roughly to the major subdivisions used in the identification and analysis of standards earlier in this study. The responses to certain questions selected from each of the sections of the questionnaire have been selected for presentation and discussion in this chapter.

Organization questions.--Table 12 below indicates the number of affirmative answers received from local governments to several questions pertaining to local government financial organization.

TABLE 12

TABULATION OF "YES" ANSWERS TO SELECTED ORGANIZATION QUESTIONS LOCAL GOVERNMENT QUESTIONNAIRE

	A-2		A-3		A-5(a)		A-5(c)	
	Yes	%	Yes	%	Yes	%	Yes	%
Georgia cities	42	65	50	77	18	28	27	41
Georgia counties	8	26	17	55	7	23	5	16
North Carolina cities	48	53	68	76	26	29	45	50
North Carolina counties	20	36	38	68	11	20	49	88

Source: Questionnaire distributed by author. A complete tabulation appears in Appendix B.

*The % yes figures given in this table are the percentage of yes responses to the total number of usable questionnaires returned by each local unit grouping.

The first question (A-2) in the table was, "Is the organization of the unit divided up along functional lines, that is, along lines such as General Administration, Finance, Public Safety, etc.?" A higher percentage of the Georgia cities answered this affirmatively, but a smaller percentage of the Georgia counties than of North Carolina counties did so. However, an appreciably smaller percentage of the Georgia counties than of their North Carolina

counterparts indicated that any individual in the governmental organization has administrative responsibility over all aspects of local finance (question A-3).

Questions A-5(a) and A-5(c) were, respectively, "Is there a finance department?" and "Is there a chief accountant or equivalent?" In both states, few of the responding governments have finance departments, but a substantial proportion of the North Carolina local governments have chief accountants. In this respect the Georgia percentages were much lower.

A further examination of the composition of the total affirmative responses quoted above revealed that an appreciably larger proportion of the larger units than of small units meet the standards. As relatively more of the small units in North Carolina responded, this influence has tended to result in percentage figures for cities in the two states which are quite similar. However, North Carolina counties led Georgia counties in meeting the standards in most respects.

Budgetary planning and control questions.--The affirmative responses to a number of questions about budgetary planning and control are listed in the table below.

TABLE 13

TABLATION OF "YES" ANSWERS TO SELECTED QUESTIONS REGARDING BUDGETARY
PLANNING AND CONTROL LOCAL GOVERNMENT QUESTIONNAIRE

	B-1		B-5		B-9		B-10		B-13		B-15		B-18	
	Yes	%	Yes	%	Yes	%	Yes	%	Yes	%	Yes	%	Yes	%
Georgia cities	48	74	42	65	25	38	15	23	41	63	32	49	17	26
Georgia counties	19	61	15	48	8	26	2	6	14	45	14	45	7	23
North Carolina cities	90	100	89	99	69	77	23	26	79	88	60	67	27	30
North Carolina counties	56	100	55	98	48	86	.12	21	43	77	31	55	3	5

Source: Author's questionnaire.

*The % yes figures given in this table are the percentage of yes responses to the total number of usable questionnaires returned by each local unit grouping.

Question B-1 was, "Is a budget prepared for the local unit?" The North Carolina governments clearly met this test, with 100 per cent of all responding units answering "yes," whereas only 74 per cent of Georgia's cities and 61 per cent of the counties replied affirmatively. The local governments were also asked (question B-5) whether the budget is formally adopted as an ordinance or official act of the governing body. The Georgia percentages fell even lower in this respect in relation to those of the North Carolina governments.

A major portion of the responding units in North Carolina, 77 per cent of the cities and 86 per cent of the counties, reported that the budget is recorded in the ledger accounts. Among Georgia units, however, the percentages answering this in the affirmative fell to 38 among the cities and 26 among the counties. To the important related question (B-10) whether encumbrances are recorded in the accounts, few units in either state said "yes." The performance of North Carolina counties was much better than that of Georgia counties, however.

It was indicated in the standards that statements should be prepared at regular intervals, comparing budgetary expectations with results. Question B-13 in the table asked whether this is done. Again, substantially higher percentages of the North Carolina governments meet this standard than is

true of the responding Georgia governments. It was also asked, in question B-15, "Are over-expenditures of appropriations tolerated by the governing body?" A surprising number of local governments in each state said that they are. The percentages were higher in North Carolina, which is particularly noteworthy in view of a statutory prohibition on over-spending. Many of the units indicated, however, that they prepare their budgets on a line-item basis for internal use but appropriate only by departments or activities. Department heads are permitted to exceed particular line items but must hold total expenditures within the departmental appropriation.

The final question in this table, B-18, asked whether any provision is made for the regular collection and reporting of statistical data relating to the operations of the local government, such as square yards of paving, or similar information. In both states, a fairly small percentage of the respondents said "yes" to this question. This is an area of important weakness in both states, if the sample is representative.

In addition to the sections of the questionnaire which have been discussed above, there were sections containing questions about accounting, reporting, internal control, and audits. The responses to a few of the key questions from these sections are tabulated below.

TABLE 14

TABULATION OF "YES" ANSWERS TO SELECTED QUESTIONS REGARDING VARIOUS ASPECTS OF FINANCIAL ADMINISTRATION LOCAL GOVERNMENT QUESTIONNAIRE

	C-1		D-3		D-4		D-5		E-4		F-1		F-3	
	Yes	%	Yes	%	Yes	%	Yes	%	Yes	%	Yes	%	Yes	%
Georgia cities	51	78	52	80	52	80	53	82	44	68	64	98	62	95
Georgia counties	21	68	28	90	24	77	20	64	16	52	31	100	28	90
North Carolina cities	84	93	84	93	85	94	82	91	62	69	90	100	84	93
North Carolina counties	51	91	51	91	48	86	45	80	26	46	56	100	52	93

Source: Author's questionnaire.

*The % yes figures given in this table are the percentage of yes responses to the total number of usable questionnaires returned by each local unit grouping.

Question C-1 was, "Is the accounting system on a double entry basis?" This is the basis recommended in the standards. Over 90 per cent both of North Carolina cities and North Carolina counties replying indicated that their records are on a double entry basis compared with only 78 per cent of the responding cities and 68 per cent of the responding counties in Georgia.

The standards on reporting require that a general financial report be prepared and published at least once each year. The extent to which the local governments in the questionnaire sample meet this requirement is indicated by the response to question D-3 in the table above. Again more than 90 per cent of the North Carolina units meet the requirement but their advantage over the Georgia local governments is less than was true of question C-1 above.

With respect to the contents of the general financial reports, the standards specify that the results of operations of each fund and the financial position of each fund at the end of the period should be separately disclosed. Questions D-4 and D-5, respectively asked whether these requirements are met in the statements of the local governments. Over 90 per cent of the North Carolina cities answered both questions in the affirmative, but the county response was only 86 per cent and 80 per cent, respectively. However, the North Carolina percentages exceed the Georgia percentages in each instance.

The importance of centralized purchasing as a part of the control system was emphasized in the standards. In reply to question E-4 which asked, "Are the purchases of all departments and activities made through a single department or agent?", there was very little difference between the percentage of "yes" answers received from the Georgia municipal governments and the percentage received from North Carolina municipal governments. Georgia counties meet the standard to a slightly greater extent than do North Carolina counties. The standard is not well met in either state, however.

The final two questions to which responses are tabulated above, F-1 and F-3, asked whether the governmental units regularly have audits performed by auditors not connected with the governmental unit, and if so, by whom are the audits made. The numbers and percentages tabulated under F-3 are the numbers of units and the percentages of total responding units which have the audits performed by certified public accountants. The local governments in both states meet the requirement of regular independent audits very well, with almost 100 per cent answering yes to question F-1. A slightly lower, but still excellent percentage of the units in both states indicated that they have the audits performed by certified public accountants.

Summary

This chapter has been concerned with the extent to which the local governments in the two case study states meet the standards pertaining to local government organization and financial administration. With the exception of the legal form adopted by local governments, the discussion is based on the response to certain key questions selected from the author's questionnaire.

In the area of forms of governmental organization, North Carolina units have adopted the strong executive forms much more extensively than have those of Georgia, particularly among the counties, which only one Georgia county has adopted the manager form, as opposed to seventeen counties in North Carolina which have done so. Among cities, the difference is less marked, but North Carolina municipal governments have also adopted the strong executive forms more extensively than have those of Georgia.

Analysis of questionnaire results.--The questionnaire was distributed to all local government units within the scope of this study. An effort was made through the municipal and county associations and the C.P.A. organizations in both states to obtain a substantial response to the questionnaires. Nevertheless, the results cannot be considered to represent a statistically valid sample, and it appears probable that there is a bias toward representation of the units which are more advanced in terms of

financial administration. This bias is believed to exist in the responses obtained from both states, but the much smaller response from Georgia local governments is thought by the author to indicate a substantially greater lag in financial administration practices in Georgia than in North Carolina. In addition, the extent of the response from North Carolina local governments makes it possible to speak with some confidence about the practices of more than one-half of the counties and nearly one-half of the cities and towns within the scope of the study. The comments which follow must be considered subject to the limitations of the sample as discussed above.

The number of North Carolina municipalities which reported that they were organized internally along functional lines was larger than the number of Georgia municipalities so reporting, but was a smaller percentage of the total responses received from North Carolina units. Among counties, however, both in numerical and percentage terms, more North Carolina units than Georgia units were functionally organized. Among those reporting, approximately the same percentage of Georgia municipalities as North Carolina municipalities have centralized financial administration, although the number of North Carolina municipalities having such administration is larger. However, a much larger proportion of the North Carolina counties indicated that they have centralized financial administration.

In the area of budgetary planning and control, a much higher percentage of the North Carolina local governments than of Georgia local governments, among those in the sample, prepare and formally adopt budgets. Similarly, a much higher percentage of North Carolina local governments indicated that they record the budget in ledger accounts. In the related area of recording encumbrances in the ledger accounts, the responding units in both states fell far below the standards.

A substantially higher proportion of the North Carolina units than of the Georgia governments reported that they regularly prepare statements comparing budgetary expectations with results. In both states, however, it was indicated that over-expenditures of appropriations were frequently permitted. The responses from both states also indicated that very few units regularly record and report work measurement data.

In the areas of accounting and reporting, the responses also indicated that a higher percentage of the reporting units in North Carolina meet the standards than do those in Georgia. In both states virtually all of the reporting units indicated that they meet the requirements with respect to annual audits by independent C.P.A.'s.

Summarizing the comparisons, there is a distinctly noticeable difference in the extent to which reporting units

in the two states meet the standards identified earlier in this study. In almost all cases, the reporting governments in North Carolina meet the requirements to a greater extent than do those of Georgia, and the difference is very marked in some areas. The North Carolina units appear particularly strong in those areas of financial administration where the standards set forth herein have been widely recognized for some time, such as double-entry accounting, auditing, adoption of budgets, and other similar areas. The greatest weakness disclosed among North Carolina local governments is in the failure to employ work measurement techniques, procedures which are not required by regulations and which have not been emphasized by the administrative agency, the Local Government Commission. If, as is suspected, the sample is biased in favor of reporting the more advanced units in each state, the extent of the deficiencies in Georgia is probably much greater than is indicated by the questionnaire results.

The responses to the questionnaire tend to bear out the conclusion stated earlier, that laws are not self-implementing, and that greatest adherence to the laws will be found in those areas where state supervision is strongest. The greatest weaknesses found among North Carolina units were in those areas which have received relatively little attention from the Local Government Commission. It should

also be noted that the financial administration practices of the Georgia local governments is not as far below the standards as might be expected from the lack of state supervision. Some influences which may account for this, at least in part, will be discussed in the next chapter.

CHAPTER X

AN EXAMINATION OF ECONOMIC, SOCIAL, AND GOVERNMENTAL INDICATORS IN THE CASE-STUDY STATES

The preceding chapter was devoted to an examination of the degree of success achieved by the two case study states in attempting to encourage desirable financial administration practices by their local units. There is an assumption implicit in the encouraging of local governments to maintain certain standards that some benefit may be expected from the observance of the desired standards. This benefit is commonly assumed to take the form of more efficient use of available resources, the rendering of more or better services to the community, greater honesty in government, and as a by-product of some of the foregoing, a relatively lighter burden upon the taxpayer. It would be most gratifying to be able to make comparisons of efficiency in the collection of revenues and to compare the efforts put forth with the results achieved in the two states. In brief, the end products of well-developed performance budgeting procedures would be most desirable. However, as indicated above, performance budgeting is virtually non-existent in either state, and such comparisons

are not feasible at this time, and it becomes necessary to resort to less direct approaches.

If the thread which ties the legal and administrative organization of a state to the financial administration performance of its local governments is tenuous, that which relates economic or social conditions to financial administration is even more so. Accordingly, the various data which are presented in this chapter are intended to provide a broader perspective for evaluation of the two case study states and to facilitate the formulation of conclusions, without presuming to prove the validity of the conclusions drawn. It was pointed out earlier in this study that North Carolina enjoys a reputation as a leader in supervision of the financial administration practices of her local governments and that Georgia is commonly regarded as lagging in this field. This reputation has been supported by an examination of the constitutional, statutory, and administrative frameworks of the two states, and by an examination of the practices of the local government as revealed by responses to a questionnaire. This chapter is intended to go one step further in an endeavor to see whether it is also supported by the various economic, social, or other indicators selected for examination.

General economic characteristics

The following tables present some selected information

relative to general economic characteristics of the two states.

TABLE 15

PER CAPITA PERSONAL INCOME GEORGIA AND NORTH CAROLINA

	1929	1940	1950	1955	1957	1960	1961	% Increase in per capita income	
								1929-61	1950-61
Georgia	350	340	1017	1332	1431	1610	1649	371	62
North Caro- lina	334	328	1012	1285	1317	1563	1642	392	62

Source: U. S. Department of Commerce, Bureau of the Census, Statistical Abstract of the United States, 1963.

TABLE 16

MEDIAN INCOME OF FAMILIES GEORGIA AND NORTH CAROLINA

	1949	1959	% Increase 1949-59
Georgia	1902	4208	121.2
North Carolina	2141	3956	84.8

Source: Statistical Abstract, 1963.

There have been some interesting changes in the per capita income figures of the two states since 1929. Although the Georgia per capita income figures have been consistently higher than those of North Carolina, the 1929 difference of \$16 per capita was reduced to \$12 by 1940 and to \$5 by 1950. By 1957, however, the Georgia per capita figure was \$114 greater than that of North Carolina, and since that date the gap has been reduced to only \$7. The

net result of these fluctuations has been a moderately greater percentage increase in per capita income in North Carolina for the entire period of 1929 to 1961, but with the percentage increases the same in both states since 1950.

The median family income changes in the 1949-1959 period show a percentage increase in Georgia of 121.2 as compared with a percentage increase of only 84.8 in North Carolina, with the result that the median income in Georgia, which trailed that of North Carolina by \$239 in 1949, now exceeds the North Carolina median by \$252.

In the area of new construction activity, as measured by the value of construction contracts, Georgia has also led with considerable consistency according to the statistics presented in the following table.

TABLE 17

VALUE OF CONSTRUCTION CONTRACTS GEORGIA AND NORTH CAROLINA
(In millions of dollars)

	1940	1950	1955	1958	1959	1960	1961	1962
Georgia	91	296	480	649	692	606	757	800
North Carolina	81	288	353	534	643	652	622	775

Source: Statistical Abstract, 1963.

The situation is reversed in the field of manufactures, where North Carolina has led quite consistently in recent years in terms of dollars of payroll, value added by manufacturing, and in expenditures for new plant and equipment, as set forth below.

TABLE 18

MANUFACTURING PAYROLLS, VALUE ADDED, AND EXPENDITURES
FOR NEW PLANT AND EQUIPMENT GEORGIA AND NORTH CAROLINA

	1954		1958		1960		1961	
	Ga.	N.C.	Ga.	N.C.	Ga.	N.C.	Ga.	N.C.
Payroll (Millions \$)	854	1186	1077	1490	1212	1751	1235	1771
Value added by manufacture	1592	2210	2102	3083	2497	3805	2467	3891
Expenditures for new plant and equipment (\$ Millions)	163	130	152	169	173	240	148	224

Source: U. S. Department of Commerce, Bureau of the Census, Statistical Abstract of the United States, 1963.

In retail trade North Carolina led Georgia with sales of \$3,210 millions to \$2,963 millions in 1954 and by a margin of approximately 9 per cent in 1958.¹ The value of farm products produced in North Carolina in 1959 exceeded the value of Georgia products by approximately 31 per cent.²

Atlanta has an important influence as a distributional center and regional office center which is reflected in the wholesale trade figures and in the figures for selected services in the table below.

¹Statistical Abstract, 1963.

²Ibid.

TABLE 19

 WHOLESALE TRADE AND SELECTED SERVICES
 GEORGIA AND NORTH CAROLINA

	1954		1958	
	Ga.	N.C.	Ga.	N.C.
Wholesale trade:				
Establishments (number)	4496	4752	5445	5741
Sales (Millions \$)	4548	4184	5741	5026
Payrolls (Thousands \$)	201	163	254	211
Selected services:				
Establishments			15858	18430
Receipts (Millions \$)			432	414
Payrolls (Millions \$)			119	114

Source: U. S. Department of Commerce, Bureau of the Census, Statistical Abstract of the United States, 1963.

One other interesting aspect of the general economic situation in the two states appears from a comparison of business failures. Although there were substantially more business firms in North Carolina than in Georgia (63,162 to 48,552 in 1962) the number of business failures has run noticeably higher in Georgia, at least in recent years. The figures for the years 1960, 1961, and 1962 were 227, 286, and 302, respectively in Georgia, as compared with 152, 192, and 135 in North Carolina.³ In 1962, the North Carolina rate per 10,000 business firms was 21.4, contrasted with a rate of 61.6 in Georgia.

In non-manufacturing employment, North Carolina led in number of employees in 1960 and 1962 with total employment of 1,196,000 and 1,251,000 for the two years respectively, as compared with 1,051,000 and 1,090,000 for

³Ibid.

Georgia. North Carolina non-manufacturing employees also worked more hours per week on the average, but received smaller average hourly earnings and weekly earnings than their counterparts in Georgia as revealed by the following table.

TABLE 20

AVERAGE WEEKLY EARNINGS AND HOURS, AVERAGE HOURLY EARNINGS NON-MANUFACTURING EMPLOYMENT GEORGIA AND NORTH CAROLINA

	Average weekly earnings			Average weekly earnings			Average hourly earnings		
	1960	1961	1962	1960	1961	1962	1960	1961	1962
Georgia	65.40	67.09	70.98	39.4	39.7	40.1	1.66	1.69	1.77
North Carolina	61.14	63.36	66.91	39.7	40.1	40.8	1.54	1.58	1.64

Source: U. S. Department of Commerce, Bureau of the Census, Statistical Abstract of the United States, 1963.

In summary, the general economic indicators were more favorable to Georgia than to North Carolina in some cases, and were more favorable to North Carolina in other cases. No clear distinction was apparent, and the results were generally inconclusive. It is strongly suspected, however, that a picture distinctly more favorable to North Carolina would emerge if the influence of the Atlanta metropolitan area were eliminated from the statistics.

Selected governmental data

Property taxes.--In this section, some selected information more directly related to governmental operations

is presented. In addition to the state agencies, there were 917 local governments with property taxing power in Georgia in 1962 compared with 576 in North Carolina. The Georgia units included 159 counties, 561 cities, and 197 school districts. In North Carolina there were 100 counties, 449 cities, and 27 drainage districts with property taxing power.⁴ School districts in North Carolina do not have independent taxing powers.

The basis for property taxation, the assessed valuation of property subject to tax (after exemptions) in the two states showed a tremendous difference in 1962. The total assessed valuation in Georgia was only \$3,231 millions as contrasted to \$8,943 millions in North Carolina.⁵ The difference in the current fair market value of taxable properties is probably less, as sales-based average assessment ratios computed by the U. S. Census Bureau for 1962 ranged from 17.9 per cent to 44.9 per cent in Georgia whereas the range in North Carolina was from 24.2 per cent to 78.3 per cent. On a state-wide basis, the Census Bureau computed the ratios of assessed values to sales prices as indicated by measurable sales (averages weighted by the type and size of property) at 20.0 per cent for Georgia and 32.3 per cent

⁴U.S. Department of Commerce, Bureau of the Census, U.S. Census of Governments, 1962, Volume 1, Governmental Organization.

⁵Ibid., Vol. 2, Taxable Property Values.

for North Carolina.⁶ These ratios, applied to the total assessed valuations, would give estimated true values of \$27,687 million in North Carolina and \$16,155 million in Georgia. Even allowing for the difference in assessment ratios, it appears that the property tax base is considerably smaller in Georgia than in North Carolina. This is due in part to greater exemptions in Georgia.

Some indication of the relative reliance on property tax revenues by the two states and by all states is given by the following table.

TABLE 21

PROPERTY TAX REVENUES, 1961 U.S., GEORGIA, AND NORTH CAROLINA LOCAL GOVERNMENTS

	U.S.	Ga.	N.C.
Amount (Millions of \$)	--	179.4	176.7
Per capita (\$)	94.90	44.49	37.94
As a percentage of total tax revenue	--	88.8	95.4
As a percentage of all general revenue	--	34.9	32.3

Source: Census of Governments, 1962, Vol. II, Taxable Property Values.

The table indicates that Georgia local governments rely more heavily upon property taxes in both total dollar amounts and per capita amounts, with the difference being considerably greater in per capita amounts due to the larger population of North Carolina. As a percentage of total tax

⁶Ibid.

revenues, however, property taxes play a smaller role in Georgia than in North Carolina, indicating more extensive use of other local taxes in Georgia. When viewed in relation to the above figures setting forth the taxable property bases in the two states, a relatively greater burden upon property owners is apparent in Georgia.

Other revenues.--The "burden" of government is a difficult thing to define or to measure, therefore the property tax statistics, in common with those statistics which follow, are suggestive but not conclusive. Another rather rough measurement of "burden" is the relationship of governmental costs to personal income. The table which follows shows the relationship of state and local revenues (combined) to each \$1000 of personal income for the U.S. as a whole and for the states of Georgia and North Carolina in two recent years.

The table reveals that the total revenues of Georgia's state and local governments have been higher per \$1000 of personal income in both years but the bulk of the difference in 1962 is the result of greater revenues from the federal government. The amount of support furnished by all state and local sources has also been larger in relation to personal income in Georgia in both years but Georgia imposed more taxes in 1957 whereas the relative amount of taxes was higher in North Carolina in 1962.

TABLE 22

STATE AND LOCAL REVENUES PER \$1000 OF PERSONAL INCOME
U.S. (AVERAGE), GEORGIA, AND NORTH CAROLINA

	U. S. Average		Georgia		North Carolina	
	1957	1962	1957	1962	1957	1962
Total (\$)	110.53	132.41	125.87	139.04	122.29	130.73
From U.S.	11.13	17.87	17.95	27.16	19.89	19.82
From all state and local general sources	99.40	114.53	107.92	111.88	102.40	110.91
Taxes -- total	83.46	94.44	86.92	86.29	84.94	90.25
property	37.26	43.34	25.20	27.21	22.76	25.23
Charges and miscellane- ous	15.94	20.09	21.00	25.61	17.46	20.66

Source: Census of Governments, 1957, Vol. III, No. 5, Compendium of Government
Finances, and Bureau of the Census, Governmental Finances in 1962.

However, in both years property taxes represented a larger proportion of personal income in Georgia than in North Carolina. Georgia relied more heavily upon charges and miscellaneous sources in both years. Taken in total, the figures indicate that Georgia governments impose a moderately heavier burden in relation to personal income than do North Carolina governments. The difference would probably be significantly greater were it not for the substantial advantage in federal funds received by Georgia.

Expenditures.--In the following table the relationship of state and local expenditures for selected functions to personal income is set forth for the United States as a whole (average), for Georgia, and for North Carolina, by principal expenditure categories.

TABLE 23

STATE AND LOCAL EXPENDITURES PER \$1000 OF PERSONAL INCOME U.S. (AVERAGE), GEORGIA, AND NORTH CAROLINA

	U.S. Average		Georgia		North Carolina	
	1957	1962	1957	1962	1957	1962
All general expenditures	116.94	135.82	130.55	145.32	122.04	131.67
Education: Total	40.84	49.86	47.52	49.65	49.63	56.74
Local schools	34.38	39.70	40.75	39.97	41.26	45.15
Highways	22.64	23.52	22.46	28.91	25.47	22.84
Public welfare	9.86	11.59	14.46	13.71	8.94	10.42
Health and hospitals	9.27	9.88	13.28	15.58	9.47	9.51

Source: U.S. Department of Commerce, Bureau of the Census, Census of Governments 1957, Vol. III, No. 5, Compendium of Government Finances and Bureau of the Census, Governmental Finances in 1962.

Before discussing the above expenditure data it may be well to present some related per capita expenditure and debt information as set forth in the following tables.

TABLE 24

STATE AND LOCAL PER CAPITA EXPENDITURES AND DEBT
GEORGIA AND NORTH CAROLINA SELECTED FUNCTIONS

	Georgia		North Carolina	
	1957	1962	1957	1962
Education: Total	68.23	87.71	65.35	98.85
Local schools	58.15	70.62	54.27	78.66
Financial administration	n.a.	4.16	n.a.	4.14
Police protection	6.14	7.09	4.87	6.24
General control	7.70	5.86	5.85	4.10
Fire protection	2.56	3.29	1.93	2.77
Interest on debt	6.10	7.50	4.68	5.15
Total debt outstanding, year-end	232.29	323.99	182.03	210.51
Long-term debt, year-end	219.39	296.71	174.07	202.44
School debt per pupil enrolled		287.00		191.00

Source: U.S. Department of Commerce, Bureau of the Census, Census of Governments, 1957, Compendium of Government Finances and 1962, Governmental Finances in 1962.

Table 24 above includes all types of expenditures. In the following table, capital outlay expenditures are eliminated and the figures cited relate only to current operations.

TABLE 25

STATE AND LOCAL PER CAPITA EXPENDITURES FOR CURRENT
OPERATIONS GEORGIA AND NORTH CAROLINA
SELECTED FUNCTIONS (1957)

	Georgia	North Carolina
Total, all functions	123.20	119.93
Education: Total	53.02	51.24
Local schools	44.69	41.35
Highways	11.64	10.33
Police	5.53	4.49
Local fire protection	2.47	1.68
General control	7.50	5.72

Source: Census of Governments, 1957, Compendium of Government Finances.

In order to give the reader an idea of the relative number of employees required to provide various services in the two states, Table 26 sets forth the full-time equivalent employment in government activities in the two states for selected functions.

TABLE 26

STATE AND LOCAL GOVERNMENTS FULL TIME EQUIVALENT
EMPLOYMENT PER 10,000 POPULATION GEORGIA AND
NORTH CAROLINA SELECTED FUNCTIONS, 1957 AND 1962

	Georgia		North Carolina	
	1957	1962	1957	1962
Total employees:	241.5	304.0	272.0	284.0
State		72.0		80.0
Local		233.0		204.0
Schools: Total	132.2	142.0	127.6	148.0
Local schools, instructional	116.9	92.0	112.8	97.0
Local schools, other	n.a.	28.0	n.a.	31.0
General control	14.3		9.3	
Highways	27.5	30.0	24.2	26.0
Police	12.4	13.0	9.9	12.0
Fire protection	5.7	6.0	3.9	5.0

Source: Census of Governments, 1957, Vol. VI, No. 31, Government in North Carolina, Vol. VI, No. 9, Government in Georgia, and Statistical Abstract, 1963.

The interpretation of expenditure figures is very difficult in the absence of data about the quality and quantity of services rendered through the expenditure of the fund involved. As stated above, work measurement information is almost non-existent in the two states under consideration and objective comparisons are rendered correspondingly difficult. The author has, however, ventured a few evaluations which are based in part upon the above figures and the additional data quoted below, and in part upon personal observation and acquaintance with both states coupled with subjective appraisal by the author.

School expenditures.--The school expenditure figures indicate that both Georgia and North Carolina made a greater effort in relation to personal income than was made by the average state in 1957 but that in 1962 the Georgia expenditures almost matched the U.S. averages both in total expenditures per \$1000 of personal income and in local school expenditures related to the same income. North Carolina, in the meantime remained ahead of the National averages, but by a smaller margin than in 1957. The per capita figures also show that Georgia made a greater expenditure per capita in 1957 than did North Carolina, but the situation was reversed by 1962. A similar change is revealed in the equivalent employment per 10,000 population figures.

When the school expenditure figures are related to enrollments, however, a different picture emerges. In 1960

the current expenditure per pupil in average daily attendance was \$253 in Georgia as opposed to only \$237 in North Carolina.⁷ The average daily attendance in North Carolina schools, according to the same source, was 90.8 per cent of enrollment, whereas in Georgia the percentage was 86.5. There is some indication that North Carolina has done slightly better in providing facilities in the statistics which show that Georgia had almost seventy-seven thousand pupils in excess of normal capacity of school plants in use in 1960 while North Carolina had an excess of only fifty-nine thousand of a considerably larger base enrollment. The school debt per pupil enrolled, as listed above, was two hundred eighty-seven dollars in Georgia in 1957, and one hundred ninety-one in North Carolina.

There are numerous other figures which might be cited with respect to the two states' schools but they are rather inconclusive. The author's impression has been that there is some indication that North Carolina taxpayers may be getting more for their school dollars, but the statistics are inconclusive, and in some respects conflicting.

Highway expenditures.--North Carolina spent more on highways per \$1000 of personal income in 1957 than did Georgia. However, by 1962, the situation was reversed and Georgia spent considerably more in relation to personal

⁷Statistical Abstract of the United States, 1963.

income than did North Carolina. When the expenditures are placed on a per capita basis, however, the Georgia expenditures were higher even in 1957. Similarly, the full-time equivalent employment on highway work per 10,000 population was higher in Georgia in both years. The Georgia road system includes only forty-seven thousand miles of surfaced roads whereas thirty-six thousand miles of the system are non-surfaced. In North Carolina, by contrast, seventy thousand miles of roads are surfaced and only ten thousand non-surfaced. The author has no hesitancy in saying that North Carolina taxpayers get more for their road dollars than do their counterparts in Georgia.

Expenditures for police protection.--Expenditures for police protection, measured on a per capita basis, and full-time equivalent employment in police activities have been consistently higher in Georgia than in North Carolina in recent years. The results of police activities are not readily measurable, and costs are affected by many factors which are not fully controllable. Accordingly, the following table is included as suggestive of differences in the two states, without attempting to attribute the differences to the effectiveness of the expenditures made.

TABLE 27

CRIME RATES PER 100,000 POPULATION - KNOWN OFFENSES
GEORGIA AND NORTH CAROLINA

	Georgia		North Carolina	
	1960	1961	1960	1961
Murder and non-negligent manslaughter	11.9	10.0	10.0	8.7
Forcible rape	7.5	9.5	7.6	7.1
Robbery	24.7	28.3	17.0	14.2
Aggravated assault	98.7	94.1	184.7	167.4
Burglary - breaking and entering	392.1	437.4	258.5	270.4
Larceny, \$50 and over	173.8	207.0	140.1	146.1
Auto theft	147.4	157.0	78.0	80.6

Source: Statistical Abstract of the United States, 1963.

Fire protection expenditures.--Georgia's expenditures for fire protection have in recent years exceeded those of North Carolina when measured on a per capita basis, both in total and in terms of current operations. Similarly, the employment per 10,000 population in fire protection activities has been greater in Georgia. One might expect that this would be apparent in the fire insurance classifications of the cities in the two states. However, as revealed in the following table, North Carolina cities have achieved better ratings on an over all basis than have their counterparts in Georgia. It is possible that this is attributable in part to better financial administration in North Carolina. The table covers all cities listed by the official rating agencies, but the comparison is distinctly more favorable to North Carolina when one considers

that there are five hundred sixty-one cities in Georgia as opposed to four hundred forty-nine in North Carolina. The cities not included in the tabulation are those whose fire protection was not rated as adequate to merit at least a grade 9 which is the minimum regular rating given.

TABLE 28

TABLE OF FIRE INSURANCE CLASSIFICATIONS¹ GEORGIA
AND NORTH CAROLINA CITIES

Class	Georgia Cities		North Carolina Cities	
	No.	%	No.	%
1	--	--	--	--
2	--	--	--	--
3	7	1.2	8	1.8
4	4	.7	5	1.1
5	5	.9	13	2.9
6	18	3.2	32	7.1
7	41	7.3	36	8.0
8	139	24.8	196	43.7
9	27	4.8	--	--
	241	43.0	290	64.6
Not rated*	320	57.0	159	35.4
	561	100.0	449	100.0

¹Based on the Grading Schedule of the National Board of Fire Underwriters.

*Cities not rated did not have sufficient fire protection to warrant a rating of 9 which is the minimum regular rating given.

Source: Ratings by the official rating agencies of the states of Georgia and North Carolina.

The ratings in the above table have an important influence on fire insurance costs in the communities covered. The lower the numerical value of the rating, the more adequate the fire protection of the city is considered to be.

Debt comparisons.--The final aspect of the financial affairs of the two case study states for consideration here is governmental debt and interest on the debt. The following tables set forth some selected data regarding state and local debt for the United States as a whole and for Georgia and North Carolina for fiscal years ending during the calendar year 1962 and for Georgia and North Carolina for selected years from 1922 to 1962. In addition, a more detailed table of debt and debt transactions for Georgia and North Carolina in 1957 is presented in Appendix C.

TABLE 29

STATE AND LOCAL DEBT IN 1962 UNITED STATES SUMMARY
(\$ MILLIONS)

	Total	State	Local	Per Cap.
Debt outstanding -				
total	81,048	21,971	59,077	436.16
Long-term	77,288	21,560	55,728	415.92
Full faith and credit	48,105	10,313	37,792	258.88
Non-guaranteed	29,184	11,248	17,936	157.05
Short-term	3,760	411	3,349	20.23
Net long-term debt outstanding	71,338	18,593	52,746	383.91
Long-term debt issued	9,395	3,070	6,326	50.56
Long-term debt retired	4,219	1,065	3,154	22.70

Source: U.S. Bureau of the Census, Governmental Finances in 1962.

Table 30 below gives a comparison of state and local debt for the case-study states for fiscal years ending in 1962.

TABLE 30

STATE AND LOCAL DEBT - 1962[†] GEORGIA AND NORTH CAROLINA (\$ MILLIONS)

	Total	Georgia		North Carolina		
		State	Local	Total	State	Local
Total debt outstanding, end of yr.	1343.3	439.4	903.8	990.2	260.0	730.3
Short-term debt outstanding	131.8	1.1	130.7	37.9	--	37.9
Long-term debt outstanding	1211.5	438.4	773.1	952.3	260.0	692.3
Net long-term debt ^{††}	1148.8	408.3	740.4	907.4	226.6	680.9
Long-term debt issued, 1962	241.1	159.8	81.3	39.8	20.6	69.2
Long-term debt retired, 1962	52.5	19.6	32.9	63.6	31.7	31.9

Source: Bureau of the Census, Governmental Finances in 1962.

[†]Figures given are for fiscal years ending in 1962.

^{††}Gross long-term debt reduced by the amount of sinking funds or other funds available for and designated for debt retirement.

To relate the debt more directly to local governments and to provide a broader perspective, Table 31 compares local debt in the two states over the entire period covered by this study.

TABLE 31

NET DEBT OF LOCAL GOVERNMENTS GEORGIA AND NORTH CAROLINA
SELECTED YEARS, 1922 TO 1962 (TOTAL AMOUNTS IN \$1,000's)

Year	Georgia		North Carolina	
	Total	Per Cap.	Total	Per Cap.
1922	58,619	19.74	147,998	55.91
1932	94,497	32.47	368,213	113.93
1942*	97,004	31.05	282,639	79.13
1957**	587,223	156.51	485,377	110.11
1962***	871,100	220.92	718,800	157.77

* 1942 Per capita figures are based on 1940 populations.***

** 1957 Per capita figures are based on estimated populations of 3,752,000 for Georgia and 4,408,000 for North Carolina.

*** 1962 Per capita figures are based on 1960 populations.

Source: Statistical Abstract of the United States, 1940, 1945; Census of Governments, 1957, Vol. VI, No. 9, Government in Georgia, and No. 31, Government in North Carolina; Governmental Finances in 1962; and Bureau of Business Research, College of Business Administration, University of Georgia, Georgia Statistical Abstract (Athens, Georgia: The Bureau of Business Research, 1963).

Debt administration is the area in which the State of North Carolina has exercised the strongest supervision, and it is to be expected that if the effects of supervision are observable, they will be most apparent in this area. The information which is available tends to bear this out.

Both Georgia and North Carolina compare favorably with the United States average for 1962 in terms of total debt outstanding, but the Georgia per capita figure is 156 per cent of the North Carolina figure. The United States average of total state and local debt per capita in 1962 was \$436.16, that of Georgia was \$328.99 and that of North Carolina \$210.51. Although Georgians enjoyed a slight advantage (\$7) in per capita income in 1962, the total state and local debt still represents a much higher percentage of personal income in Georgia than in North Carolina. Georgia governments also relied more heavily upon short-term debt in 1962 than did their counterparts in North Carolina, and although this is generally undesirable, the exact interpretation is not possible in the absence of more specific information about the character of the short-term debt in Georgia.

As was true of the combined state and local debt, the total debt of local governments in Georgia exceeded that of North Carolina local governments by a significant amount in 1962. The net debt of Georgia local governments

exceeded that of North Carolina local governments by \$152.3 millions in 1962, and when the greater total debt is distributed over the smaller population of Georgia, it results in a per capita net debt figure for Georgia which exceeds the North Carolina per capita figure by 40 per cent. The slight difference in per capita income figures does not result in a materially different relationship of net local government debt to personal income.

The above table of net debt of local governments since 1922 illustrates the significant change which has taken place in the relative debt position of local governments in the two states. In 1922 the net debt of Georgia local governments was significantly lower than that of North Carolina units whether expressed in total dollars or per capita figures. By 1932 the per capita debt of North Carolina local units was approximately three and one-half times that of Georgia governments. However, following the establishment of the Local Government Commission, the absolute amount and the per capita debt of local governments in North Carolina declined substantially, and as late as 1957 the per capita figure had not climbed back up to the 1932 level. Despite the precarious position in which the North Carolina local governments found themselves at the onset of the depression, the Local Government Commission never found it necessary to exercise its authority to appoint

an administrator for any local unit.⁸ The extensive and highly successful work of the Commission in refinancing issues in actual or threatened default rendered the appointment of administrators unnecessary.

The Local Government Commission also has been a factor in the limited use of short-term debt by local governments in North Carolina. Short-term notes made up about 10 per cent of the total local government debt of \$350 million in early 1931 when the Commission was established. A substantial portion of this debt consisted of revenue-anticipation certificates. By mid-1962 the total of revenue-anticipation certificates was \$205,000. The balance of short-term notes were issued in anticipation of the sale of duly authorized bonds.

In Georgia, the situation is the reverse of that in North Carolina. Net debt of local governments has exhibited a consistent growth both in total amount and (with the exception of the war period) in per capita amounts. The total figure is almost fifteen times that of 1922 and the per capita figure is eleven times that of 1922. The net effect is that the per capita net debt of local governments in Georgia now exceeds that of local governments in North Carolina by the 40 per cent cited above.

⁸John Alexander McMahon, *The North Carolina Local Government Commission* (Chapel Hill, N. C.: The North Carolina Association of County Commissioners, 1960), p. 14.

In addition to the relationship of debt amounts to personal income and to individuals, one measure of the "burden" of debt is its relationship to the assessed and real values of taxable properties. If the assessed values in Georgia and North Carolina were multiplied by factors of five and three, respectively, to convert them to average true values, the resulting figures would be approximately \$27,687 million in North Carolina and \$16,155 million in Georgia. Again, the larger absolute amounts of debt in Georgia represent greater proportions of the tax base than is represented by the debt of North Carolina local governments.

The debt structures of local governments in the two states are distinctly different in terms of the types of bonds issued. Revenue bonds represent less than 1 per cent of the total debt of North Carolina local governments, whereas more than 53 per cent of the long-term debt or 50 per cent of the total debt of Georgia local governments is non-guaranteed. For all states an average of 32 per cent of long-term debt is non-guaranteed. It is generally held that non-guaranteed bonds require higher yields than bonds of the same unit which carry a pledge of the full faith and credit of the issuing unit. In addition, the cost of preparing and selling the issue is likely to be greater. Some comparisons of interest payments and yields in the two states are given below.

The interest payments on state and local debt in Georgia totaled \$30.6 millions in 1962, with the payment on local debt making up \$20.1 millions of this total. The interest payments on state and local debt in North Carolina during the same year were \$24.2 millions in total, of which \$17.5 millions were paid on the local debt. Translated into per capita figures, the Georgia payments represented \$7.50 per capita on the total debt or \$4.93 on local debt. The corresponding figures for North Carolina were \$5.15 on total debt and \$3.72 on local debt. It is quite clear that current interest requirements are higher relative to per capita income or to the tax base in Georgia than in North Carolina.

In order to inquire further into the relative interest cost in the two states, an analysis was made of all bonds sold by local governments in Georgia and North Carolina during the year July 1, 1961 to June 30, 1962. The weighted average interest rate at issue for all Georgia bonds was 3.4036 per cent, and for North Carolina bonds, 3.1279 per cent.⁹ The weighted average interest rate on revenue bonds sold by Georgia local governments was 3.4975

⁹In arriving at these figures, the lowest average interest rate bid, which was the basis used in awarding the bonds in both states, was weighted by the dollar amount of principal of bonds in each issue. The sum of the weighted interest figures was then divided by the total principal amount of bonds sold for the year to determine the average interest rate. The computation was the same for the average interest rate on revenue bonds, using only the revenue bond issue.

per cent. There were no revenue bonds sold by North Carolina local governments during the period studied.¹⁰

To the extent that the sample year is representative, the figures indicate both that the average interest cost to Georgia local governments is higher than that paid by their North Carolina contemporaries, and that average rates on revenue issues are higher than rates on general obligation bonds in Georgia. It would also be interesting to compare the costs of selling bonds in the two states, including fees of fiscal agents, engineers, attorneys, and others engaged in the preparation and sale of bonds, but the information is not available. It is probably a safe assumption that the costs are materially less in North Carolina, however, where the Local Government Commission serves as fiscal agent and renders other services. There is no charge to units for the services of the Commission, but certain nominal expenses, such as the cost of printing the bonds, are paid by the Commission subject to reimbursement by local units. The maximum of such charges was estimated at \$500 by the Secretary of the Commission in 1962.¹¹

¹⁰ Figures for North Carolina based on the Biennial Report of the Local Government Commission, 1962 (Raleigh: The Commission, 1962), pp. 31-60. Figures for Georgia obtained from the private files of the Robinson-Humphrey Co., Atlanta, Georgia.

¹¹ Conversation with Mr. W. E. Easterling, Secretary, August, 1962.

Although the cost of operating the Commission should be charged in part to its bond sales activities in such a comparison, the total budget of the Commission for a year is little more than the fiscal agent's fees on many individual privately handled issues.

External influences on local governments

Although the comparisons of the two states have generally supported the position that financial administration among North Carolina local governments comes closer to the standards than does that of their Georgia neighbors, the differences are less than might be expected. It is in order, accordingly, to give some consideration to possible reasons for this situation.

From the rather unimpressive picture in earlier chapters of the existing constitutional, statutory, and administrative framework within which the local governments of Georgia operate, one might conclude that Georgians lack interest in the governments of their communities. It is only necessary to glance at the newspapers or at the journals of the Georgia Municipal Association and of the Association County Commissioners of Georgia to detect the fallacy of this conclusion. The interest of Georgians in the proper conduct of local government affairs has manifested itself in many ways. Among the concrete manifestations are the establishment of an Institute of Law and Government and an Institute

of Community and Area Development at the University of Georgia. The facilities of these institutes as well as the facilities of the Center for Continuing Education at the University of Georgia are used to provide training and informational materials and programs to municipal and county officials throughout the State. Similar activities are carried on by the Georgia State University, by Georgia "Tech," and by other state schools and agencies.

The organizations of the local units are also very active in promoting good practices, in providing educational and training materials, and in exerting leadership toward improved government. These and other forces, such as the League of Women Voters, for example, are constantly at work to correct the deficiencies in the existing framework.

One approach to correcting the deficiencies is to modify the framework. In this respect, an important step has been taken. Early in 1963 a joint Senate-House committee was appointed to study the desirability of creating a Constitutional Revision Commission. The Committee recommended the creation of such a commission, and the recommendation was enacted into law. The work of the Commission is now in progress, and many of the deficiencies cited herein are under consideration. One point has been particularly stressed in the preliminary comments, and it is that the Constitution should be modified into a fundamental and timeless document to minimize the necessity of amending it.

Voluntary action on the part of the local governments, either as a result of some of the influences cited or independent of them, can also offset some of the deficiencies in the state-provided framework.

In North Carolina, as in Georgia, an important influence is exerted upon the local governments by several semi-official or unofficial groups and agencies. In addition to such external influences as the federal government and the various national associations of governments or officials, there are at least four local factors of importance.

The first of these local factors is the Institute of Government which is located on the campus of the University of North Carolina in Chapel Hill. The Institute conducts numerous classes and training programs for local and state officials, and sponsors various meetings aimed at assisting officials in some manner. The scope of activities is far beyond those covered in this study, but courses and other activities for local officials concerned with financial administration are an important part of the work of the Institute. The offerings of the Institute go well beyond the typical one or two day short course, and include rather extensive and intensive formal training programs. In 1960-61, for example, the number of schools, conferences, and meetings at Chapel Hill was one-hundred twenty, and the

number of "student days" exceeded thirty thousand. Over one thousand officials participated in additional meetings at other locations and thousands of inquiries were handled by the Institute.¹²

Three other important influences are the North Carolina Association of County Commissioners, the North Carolina League of Municipalities, and the North Carolina Association of Certified Public Accountants. All of these groups have actively supported sound local government financial administration and have contributed much toward achieving the goal. There are, of course, many other influences in North Carolina, as in Georgia, such as the state and private universities, the Public Administration Society, the League of Women Voters, and others which might be cited.

Because of the diversity of influences at work in any given state, it is not feasible to establish a direct cause and effect relationship between any specific influence and any condition found to exist except in unusual circumstances. Despite this, public administration authorities are generally in agreement that desirable as is the work of the voluntary associations and unofficial groups, these

¹²This information is from unpublished materials furnished the author by Mr. Elmer Cerner, Assistant Director and Mr. Robert Byrd, Assistant Director, both on the staff of the Institute of Government.

associations and groups can not substitute for a state agency supervising local finance. Both the state and the associations function better when cooperating with each other than when either works alone. This is supported by the Georgia experience.

Summary

This chapter has been devoted to an examination of a number of economic, social, and governmental statistics to ascertain whether they support or refute the earlier evidence that financial administration by North Carolina local units is at a higher level than that practiced by their Georgia counterparts. The principal question under examination was whether there is evidence in the economic, social, or governmental indicators that the presumed superior practices in North Carolina have resulted in observable advantages to North Carolina citizens.

The general economic and social indicators were somewhat contradictory, and in general, inconclusive. They did not strongly support or refute the previous conclusions.

The governmental indicators, however, generally supported the position that the citizens of North Carolina are benefitting from better local government financial administration. The evidence takes several forms, ranging from better ratings of some service activities accompanied by lower per capita costs or costs per \$1,000 of personal

income to lower total and per capita debt and lower debt service costs, whether measured in terms of current debt service outlays or in terms of net interest cost on bonds and notes at time of issue. The strongest indications of results of state supervision were found, as might be expected, in the area of debt administration and debt costs in North Carolina.

The general conclusions of the author are that the evidence strongly suggests, but does not prove, that local government financial administration is more consistent with the standards in North Carolina than in Georgia, and that direct benefits to citizens of North Carolina result from the better financial administration. It also supports the position that the standards, as set out earlier, provide a useful tool for evaluating the structure of a state for the supervision of financial administration practices of its local governments.

CHAPTER XI

SUMMARY AND CONCLUSIONS

This study has undertaken to identify standards for the financial administration of local government units, and to examine the role of the state in achieving the standards. Emphasis has been placed on identification rather than on development of standards, as the standards set forth herein are those espoused by leading authorities or authoritative groups concerned with local government financial administration. An element of judgment is necessarily involved in the selection of standards on this basis, but every effort has been made to determine what constitutes the weight of authority in all cases.

In order to demonstrate the usefulness of the standards in evaluating existing state and local provisions for financial administration of local governments, the two case study states of North Carolina and Georgia were selected for detailed examination. The two states had a great deal in common socially, economically, and governmentally at the start of the decade of the 1920's. Although they still have much in common, the 1920's witnessed a sharp break with tradition in the handling of local government

financial affairs in North Carolina. The principal characteristic of the change was a significant increase in state control over and supervision of local government financial administration. No similar change has taken place to this date in Georgia. Therefore, the two states present significant possibilities for comparison.

This study has undertaken to examine the paths taken by the two states and to evaluate the present status of constitutional, statutory, and administrative provisions relating to local government financial administration in each state, and to evaluate the financial administration practices of local governments in the two states. It was anticipated that North Carolina, long regarded as a leader in the field of state supervision of local financial administration, and its local governments, would measure up well according to the standards, and that Georgia, regarded as lagging in this field, would not. A comparison of a number of economic, social, and governmental indicators was also undertaken to determine whether there was any indication that better financial administration, as defined by the standards, resulted in any observable benefits in the more advanced state. The first aspect of the problem to be examined was organization for financial administration.

Organization for financial administration

The fundamental basis for government is the Constitution of the United States. States and local units are also affected by federal statutes and administrative action. As these are outside the control of states or local units and presumably impinge upon all in essentially the same manner, they were not considered in this study. The starting point for the study thus becomes the individual state constitutions.

The standards identified with respect to constitutions were that they should be confined to subjects which are timeless, fundamental, and state-wide in their application. The major constitutional provisions related to this study, according to the standards, should be those having to do with the forms of local governments and the authority of local governments to act on their own initiative. They should authorize the local governments to adopt, by local action, one of the strong executive forms of local government organization and to adapt or modify their charters in a manner not inconsistent with laws of state-wide application. The local governments should be constitutionally authorized to act in any functional area not specifically restricted by the constitution or by general laws of the state. The authority thus granted should be subject to restriction by general laws, and should not extend to

financial administration, which should be state supervised. The constitution should be silent with respect to debt or taxes except, perhaps, that the typical public purpose requirements might be included.

The general standards with relation to statutes were that they should be broad statements of legislative policy and that provisions should be made for flexibility through administrative action.

One of the major standards established with respect to the position of the state was that the state should establish a state-local government commission to deal with the many problems of common concern to both the state and the local governments. The study has been concerned particularly with a functional part of such agency, a division of local government finance which, according to the standards, should be established in each state to deal with local government financial affairs. The division of local government finance should be assigned the duties of supervision over the financial affairs of the local governments, and should act in a liaison capacity between local governments and other state agencies.

The primary standards with respect to the organization of the local units were that all units should adopt some type of strong executive government. Within the organization, all operating subdivisions, as well as the budgets, accounting

records, and reports should be established so as to permit emphasis upon objectives to be accomplished and the specific programs involved in the furtherance of the objectives. Within any governmental unit, control of financial affairs should be centered in a finance department having unit-wide jurisdiction, and the finance department should be subdivided into functional units. The specific divisions recommended were accounting, assessments and billing, purchase and contract, treasury, and a closely related budget office.

It was suggested in addition to the constitutional provisions affecting forms of local government, that the legislature should, by statute, indicate as general policy that all units must have centralized finance, must adopt and observe budgets, must maintain adequate records, must prepare and publish regular annual reports, and must have annual audits conducted by independent certified public accountants or staff auditors of the state's local government finance division. Each unit should also be required to file a preliminary copy and a final copy of its budget and a copy of its audited financial statement with the state's division of local government finance. The specifications and details relating to all of these statutes should be made the responsibility of the division of local government finance. One additional standard set forth was the adoption of a uniform fiscal year for all units.

Two special areas which have long been selected for special attention by state governments were also examined. The areas are property tax administration and debt administration.

The major recommendations were that there should be no constitutional or statutory property tax rate limitations. On the assumption that rate limitations are not likely to be abandoned, standards for the least undesirable use of rate limitations were identified. These were that any rate limitations should be based on appraised values which had been state-equalized at 100 per cent of fair market value, that an over-all rate limit should be used, rather than restrictions on levies for particular purposes, and that there should be one total rate limit for counties, one limit for each incorporated city or town, and that no other units be authorized to levy taxes except through the counties or municipalities. Such levies should be included within the limits. It would thus be possible to establish special taxing districts, but the maximum levy on any property within the district, both district and municipal or district and county, could not exceed the limiting rate. The county limit and the municipal limit would be independent of each other, thus the maximum rate on municipal property might be the sum of the maximum county rate and maximum municipal rate. The rate limitations should be

made flexible by authorizing the state's division of local government finance to grant permission to exceed the limits under certain circumstances. School districts and levies were not covered by the recommendations.

The states should exercise general supervision over the assessment of property by prescribing forms, procedures, and reports, by requiring regular revaluations, and by making provision for state-wide equalization, or at least minimum standards of tolerance for local assessment levels, under the supervision of the division of local government finance.

The standards for state supervision of debt administration were that there should be no constitutional debt limitations and that statutory limitations should be based upon appraised values which are state-equalized at 100 per cent of fair market value, as provided above. In computing the amount of debt for purposes of applying the limitation, all debt should be included. Neither the so-called "self-supporting" debt or short term debt should be excluded. Although the statutory limitation should be set fairly low, the local government finance division should be given authority to approve debt in excess of the limits. The legislature should indicate its policy with respect to the proper basis for authorizing additional debt but should leave detailed administration to the local government

finance division. All debt issues in excess of the limit should require approval of the local unit voters, and local officials should have the right to appeal unfavorable decisions of the local government finance division to the voters. Full disclosure of the position of the finance division should be a requirement.

The division of local government finance should be made the official sales agency for all local unit debt issues, and should act as advisor to local officials upon request. All bond prospectuses and other technical topics related to the debt issues, including compliance with procedural requirements, should require the approval of the finance division.

Tools and techniques of financial administration

The second major group of standards were those related to the tools and techniques of financial administration, budgetary planning and control, accounting and internal control, reporting, and auditing.

In the discussion of standards for budgetary planning and control, the proper allocation of resources among competing uses, and efficient use of the resources toward desired objectives were identified as fundamental problems of governmental management. Budgetary planning and control were set out as indispensable in dealing with these problems.

Program or performance budgeting procedures were identified as those most suitable to the meeting of managements requirements. The importance of integrating the short-term plans with long-term plans and of including both capital requirements and operating requirements in the budgetary plans were also stressed.

The budgetary plan should be expressed both in terms of financial magnitudes and in terms of quantitative and qualitative measures of anticipated performance. Records, procedures, and reports should be designed to accumulate and to use information relating both to the financial magnitudes and to the quantitative and qualitative aspects of actual results. Corrective action and alterations of the basic plan should take all of the information into consideration.

Local accounting should be centralized under the finance director in an accounting section having unit-wide jurisdiction. Accounting should be on a fund basis and should use standard classifications of accounts throughout all funds, and throughout the budget, the ledgers, and the financial reports. In connection with both fund accounting and the standard chart of accounts, reference was made to the publications of the National Committee on Governmental Accounting as the standards. Accounting should be on a double-entry basis, using complete general ledgers and

subsidiary ledgers as needed. One important deviation from the recommendations of the National Committee on Governmental Accounting was set forth. This departure was the recommendation in this study that revenues be recorded on a cash basis, while expenditures be recorded on an accrual basis.

Some special areas of accounting and internal control were discussed relative to assets, liabilities, and surplus. With respect to assets the discussion centered around records and procedures to assure the receipt of all assets due the governmental units, to assure proper recording of all assets, to control custody and use, to provide both physical protection and value protection for assets, and to control the disposition of assets.

As applied to cash, the records and procedures discussed included the establishment of amounts which should be received through assessment and billing by persons independent of the collecting agency and vigorous collection procedures by the collecting agency. Point-of-receipt procedures to assure proper recording of cash were also discussed. Included were the use of pre-numbered receipt forms in multiple copies, daily cash reports, use of validating registers, and daily deposits in approved depositories. The proper separation of receipts by funds, deposits only in the name of the governmental unit or a fund

thereof, employee bonding, and safeguards such as the use of vaults, security procedures, and insurance coverage were also covered.

The importance of control procedures in the cash disbursing process was pointed out, beginning with a requirement of proper authorizations for all disbursements. For many disbursements, the basic authorization is the approved budget. Consequently the use of budgetary accounts, including the recording of encumbrances, was set forth as essential. Centralized purchase procedures were recommended both for control and for efficiency; and the necessity of integrating the actual payment procedures into the control system, along with the incurrence of obligations, was discussed. The potential contribution of a personnel department was mentioned.

In connection with receivables, aspects discussed included the important function of the separate assessment and billing section in establishing, independent of the collecting agency, of the amounts which should be collected, and in giving special attention to billing to assure promptness and completeness. Direct reporting to the accounting section of amounts billed was also recommended. Similar direct reports from the cashier's office to the accounting section would permit ascertainment of a balance of the receivables, which should be verified by examination

of the detailed receivable records, and by other procedures including confirmations.

The relative importance of property records was discussed both from the standpoint of protection of assets from dissipation, and from the more positive point of view that good property records and procedures are essential to assure direction of the resources of a unit toward the desired goals. Reference was made to basic principles underlying procedures for property accounting and control as expressed by the International City Managers Association in Municipal Finance Administration.¹ The principles expressed in the foregoing publication were adopted, with some explanation.

The discussion of the treatment of liabilities and surplus was largely concerned with the proper accounting and statement treatment, consistent with accounting principles previously presented.

The standards identified with respect to reporting were based largely on the publications of the National Committee on Governmental Accounting, supplemented in some cases with additional detail. The importance of prompt and complete reporting to the public was stressed. Reports

¹International City Managers' Association, Municipal Finance Administration (5th ed.; Chicago: The Association, 1955) p. 398.

should be uniform from period to period, and uniform in general characteristics among units, and should be made freely available to all interested persons. For internal purposes, very much the same standards were set forth with respect to the general financial statements, but with provision for much more frequent preparation and the inclusion of additional details and supporting schedules. Cash flow statements and procedures and statistical and other management information were discussed. The use of program budgets and related budgetary control procedures and statements were again emphasized. Regular annual reports to the division of local government finance, which were set forth as standards, should include complete audited financial reports and both an advance copy of the proposed budget of each unit before adoption and a copy of the final budget after adoption. It was proposed that the local government finance division be given authority to prescribe the forms and time of filing of such reports, and should have authority to review the advance copies of budgets for compliance with any relevant legislative provisions.

An annual audit either by an independent certified public accountant or by an auditor on the staff of the local government finance division was also identified as a standard for each local unit. A statement of the auditor's opinion on the fairness and consistency of the statements should be

a requirement, and general supervision over all audits should be within the authority of the local government finance division.

Application of standards to the case study states

The constitutions, statutes, and administrative organizations of the two states were examined in considerable detail and were measured against the standards identified earlier to determine the extent to which they conformed to or were at variance from the standards. The discussion of the case-study states was organized into sections corresponding in general to the subdivisions of the discussion of standards, and is summarized below in approximately the same format.

Organization for financial administration

Organization for financial administration in Georgia.--

The Georgia Constitution was found to be too long, too detailed, and not limited to fundamentals. In addition, it is not state-wide in scope, both because of the nature of some of its "general" provisions, and because it is subject to amendments having only local application and subject to ratification by voters in localized areas. The statutes are also excessively detailed and are not made flexible through administrative authority to modify them when appropriate. Local laws and "population" acts are common.

The Constitution contains broad enabling authority which permits the Legislature to grant municipal home rule but there is apparently no valid statute implementing the authority. There has been almost no statutory regulation of forms of municipal government other than the special acts under which governments are organized or modified. The county manager act has been ignored by all counties except Fulton (which includes most of the City of Atlanta).

There is no state agency in Georgia concerned primarily with the supervision of state-local relations or the supervision of local government financial administration. There is some incidental supervision of local governments by state agencies which are primarily concerned with other activities. The strongest supervision is exercised in the field of local school affairs, which is outside the scope of this study, but which may provide useful experience in state supervision to be applied in other areas. It is of particular interest at the moment to note that, supervision of the schools was strengthened during the 1964 session of the General Assembly by the passage of Senate Bill 180 which provides for the establishment of uniform budget and accounting systems for schools, for state approval of local school budgets, and strong state supervision over and review of local school financial administration in general. The example of state supervision most closely related to this study is that exercised by the State Revenue Commissioner

over local government property taxation. The tax supervision is extremely limited, and falls far short of the standards previously identified.

State constitutional or statutory requirements relating to organization of local governments for financial administration are very few, but the election of many local officials tends to inhibit the establishment of sound forms of organization. There is an implied constitutional requirement and a specific statutory requirement that a treasurer be elected in each county, but the General Assembly is also given authority by the Constitution to abolish the office in any county, and has done so in more than one hundred counties. The General Assembly is also authorized by the Constitution to combine the offices of tax receiver (who receives the annual listings from the taxpayers) and tax collector, and has combined them in many counties. This action has destroyed, in those counties, the small element of internal control which formerly resulted from the separation of tax listing from tax collecting.

Organization for financial administration in North Carolina.--The North Carolina Constitution is rather long, but less so than that of Georgia, and is generally confined to topics of continuing interest and state-wide application. The Constitution leaves the discretion with respect to forms of local government organization almost entirely with the General Assembly. The Constitution requires the election

of a treasurer in each county, but leaves regulation of other aspects of financial organization to the Legislature.

The General Statutes of North Carolina are lengthy and detailed, but establish a significant degree of administrative supervision. The principal agencies for supervision of local governments are the Local Government Commission and the Director of Local Government which function through a common administrative official who has the titles of Secretary of the Commission and Assistant Director of Local Government. Additional supervision is exercised by a State Board of Assessments and a Department of Tax Research. The principal factor which limits the effectiveness of the supervisory agencies is a lack of funds, rather than a lack of authority.

The statutes authorize but do not require strong executive forms of county government and municipal government, and cities are granted extensive powers to revise their charters through local action. The Legislature has issued a clear mandate for unified financial management in local governments and has enacted broad fiscal control acts applicable to all units.

State supervision of local tax and debt administration

Supervision of local tax and debt administration in Georgia.--The Constitution of Georgia is consistent with the standards identified earlier in that it does not prescribe any tax rate limitations, except with respect to

school levies, and the school limitation can be exceeded by local action. The Georgia statutes, however, establish tax rate limits which are applicable to levies for particular purposes and which restrict the proceeds of the levies to the particular purposes for which levied. The basis for the limitations is the assessed valuation of property within the taxing jurisdiction and there is no administrative relief from the operation of the limits. The assessed valuations to which the limits are related are in no sense equalized, and the tax limitation structure is contrary to the standards in almost all respects.

Requirements relating to the assessment of property in Georgia are also far short of the standards in most particulars. The very limited supervision which exists is exercised by the Commissioner of Revenue whose primary interests lie elsewhere. The authority of the Commissioner to equalize valuations is confined to the equalization of over-all assessment levels between counties. Local assessment and review procedures are generally inadequate. A further problem is created by the duplication of assessment procedures which results from both county and municipal officials having authority to assess the properties within their jurisdictions. There is no requirement that properties be periodically reassessed.

The Constitution of Georgia imposes specific debt limitations, which is contrary to the standards. The

limitations are based upon assessed valuations, which, as stated above, are clearly not equalized. Debt up to 7 per cent of assessed value may be incurred with only a favorable vote of the local electorate, and an additional 3 per cent of assessed value may be incurred with the prior approval of the General Assembly and the local electorate. Revenue bonds are exempted from the operation of the limits. The undesirability of exempting revenue bonds from debt limits is heightened in Georgia by the fact that revenues not associated with the borrowing activity may be pledged to payment of the debt. The Georgia requirements are consistent with the standards to the extent of inclusion of temporary borrowing within the debt limits set by the statutory and administrative structure.

The majority of local government debt issues in Georgia are not subject to administrative supervision. One minor exception of interest applies to refunding bonds. A Refunding Bond Commission has the authority to approve or disapprove the refunding of certain issues outstanding at the time the constitutional authority was granted to establish the Commission.

Supervision of local tax and debt administration in North Carolina.--A constitutional tax rate limitation applicable to counties is supplemented by statutory limits applying both to counties and to municipalities. The

statutory limitations, contrary to the standards, require segregation of the proceeds of particular levies and the establishment of separate funds to account for the collection and expenditures of the various levies. County levies for school purposes are exempted from the limitations. The limits are based upon assessed valuations which are not equalized on a state-wide basis, and fractional assessed valuations are specifically authorized. There is no duplication of assessment of real property as municipalities are required to use the values established by the county assessing officials. The State Board of Assessments prescribes forms and procedures for local property tax listing and assessment, but does little supervising except through required reports and appellate review. Periodic reappraisals of all property are required by statute.

North Carolina varies from the standards in having constitutional debt limits, but they are not very restrictive in that they simply require that certain issues be submitted to the local electorate for approval. The statutory debt limits, on the contrary, contain no authority for either administrative or voter relief from their impact. The debt limits, like the tax limits, are based on assessed valuations which are not equalized on a state-wide basis. The arbitrary working of the debt limits is increased by the fact that municipal authorities must use the assessed

values established by the county officials, which may be set at an arbitrary percentage of true values. The debt-incurring capacity of a municipality may thus be restricted by the officials of the county in which it is located. The debt limits do not apply to bonds which lack a pledge of the full faith and credit of the issuing government, but such bonds have been of minor importance in the financing of North Carolina's local governments. A more important defect is the fact that they do not apply to certain bonds issued in connection with the establishment or operation of governmentally-owned utilities.

The State of North Carolina is particularly strong in the field of supervision of local government debt. The North Carolina Local Government Commission guides the planning of new debt issues, prepares and distributes notices of sale, receives sealed bids and awards the securities to the highest bidder, delivers the securities to the buyers and the proceeds to the issuing governments, and, in general, supervises the entire debt creation process. Extensive supervision is also exercised over debt service, and complete records of local government debt are maintained in the Commission's offices in Raleigh. The Commission also issues biennial reports of the activities of the Commission and of the debt issued or retired by local governments.

Although the Commission's authority to disapprove bond or note issues proposed by local governments may be

over-ridden by the local voters, no issue disapproved by the Commission has ever been submitted to the voters. This is the result of one of the most valuable aspects of the Commission's work, an aspect which never appears in the statistics relating to the work of the Commission. It is the general practice of the Secretary of the Commission to discuss proposed financing informally with local officials at an early stage in its planning. Most of the modifications take place at this stage and virtually all of the disapprovals occur at the informal level and thus do not appear in the records as no formal application is ever filed. As a result, formal disapprovals are infrequent, and no issue has been submitted to the voters after being disapproved.

Regulation of the tools and techniques of financial administration

Budgetary planning and control, Georgia.--Georgia has no constitutional, statutory, or administrative budgetary requirements applicable to local governments with the exception of school districts. Accordingly, the standards with respect to state supervision of budgetary planning and control are completely unfulfilled in Georgia.

Budgetary planning and control, North Carolina.--The budgetary control requirements in North Carolina are generally strong, both as they pertain to counties and as

they pertain to municipalities. They emphasize careful planning and formal adoption of the budget, the observance of a budget calendar, the limitation of expenditures to appropriations, careful expenditure controls, and fund and activity breakdown of the budgetary plan and related records. The principal weakness noted were a lack of emphasis on related work-measurement records and the lack of administrative review of local budgets. Full achievement of the standards must depend heavily upon the Local Government Commission, particularly in the areas of revenue administration and the managerial uses of the budget.

Accounting and internal control, Georgia.--The references to accounting and internal control are extremely fragmented and incomplete. They are scattered through the statutes without apparent pattern and almost without mention of administrative supervision. Neither the constitution nor the statutes mention fund accounting although it may be implied from the requirement that the proceeds of certain tax levies be kept separate from those of other levies, and that separate accounts be kept of the amounts received and disbursed. There is no suggestion of uniform accounting.

The Constitution of Georgia is silent regarding forms of records to be maintained by local governments, and statutory requirements are very limited and non-specific.

There are no requirements pertaining to uniform classifications of accounts or to the basis of accounting, although the wording of certain statutes seems to imply that the cash basis should be used.

The internal control aspects of accounting and organization receive almost no attention either in the Constitution or in the statutes. Indeed, the constitutional authority given the Legislature to combine the tax listing and tax collecting offices is a direct violation of the principles of internal control. There are some requirements relating to the collection of revenues, accounting for the proceeds of tax levies or other revenues, and depositing of funds, but they are very weak. Centralized purchasing is not required, and the requirements pertaining to the awarding of contracts, including the avoidance of conflicts of interest are inadequate. They would provide some protection, however, if carefully enforced.

The requirements relating to payment procedures are more extensive than those concerning either receipts or purchasing procedures, but apply primarily to counties and do not mention budgetary controls or the managerial uses of disbursement information. There is some theoretical review of the work of the tax collectors or tax commissioners by the grand juries and by the State Revenue Commissioner, but its effectiveness is doubtful.

In general, although there are scattered examples of internal control requirements such as the requirement that county officers file complete annual inventories of properties under their control, the Georgia system is almost without provisions for internal control.

Accounting and internal control, North Carolina.--

There are important statutes dealing with local government accounting and internal control in North Carolina, with the Local Government Commission assigned the responsibility for their implementation. The requirements of the Accounting Advisory Section of the North Carolina Local Government Commission were found to parallel the standards so closely that no separate discussion is needed. The weaknesses observed were judged to be comparatively minor, and the standards, in general, were found to be well met. The most important weaknesses found were the failure to illustrate and discuss, in the Commission's Manual, either managerial cash flow statements or work measurement reports and techniques, and inadequate requirements relating to the separation of the billing and collection functions in municipalities. These deficiencies can be cured by administrative action, if the State will furnish the Local Government Commission with sufficient funds to attract and retain sufficient qualified personnel to do the work.

Reporting, Georgia.--The reporting requirements in

Georgia fall short of the standards previously discussed to an even greater extent than do the accounting and internal control requirements. They are virtually non-existent and do not meet the standards in any material respect.

Reporting, North Carolina.--The reporting requirements in North Carolina are primarily the responsibility of the Local Government Commission. The statements and other information requirements specified by the Commission were found to meet the standards in most respects. They do not include illustrations of cash flow statements and work measurement reports, as mentioned above, and they do not include a requirement that local budgets be reviewed by the Commission, either before or after adoption. They do include a requirement that a copy of each audit of a local government performed by an independent auditor be filed with the Commission before the auditor's invoice can be approved and paid. The deficiencies can be corrected by administrative action, but full implementation of the Commission's recommendations must await more financial support for the Commission.

Auditing, Georgia.--There are no generally applicable auditing requirements in Georgia, other than the audits of local school districts.

Auditing, North Carolina.--The North Carolina statutes require annual audits of most small municipalities

and of various designated activities, both municipal and county. A check of the records of the Local Government Commission discloses that almost all counties and cities have annual audits performed by certified public accountants, and file copies with the Commission.

Examination of the local government questionnaire results

Chapter IX of this study was concerned with the extent to which the two states had succeeded in encouraging local governments to adopt forms of organization and financial administration practices consistent with the standards. The principal source of information for Chapter IX was a local government questionnaire prepared and distributed by the author. It was supplemented in the area of forms of government by information from other sources. The response to the questionnaire was not believed to be a statistically valid sample, and no projections were attempted. However, the extent of the response was sufficient to provide much interesting information. It is the author's opinion that the sample is biased in the direction of producing a greater response from the units which are more advanced in terms of financial administration.

The conclusions reached were that local governments in North Carolina have adopted the strong executive forms of organization to a considerably greater extent than have those in Georgia, and that in almost all cases, among

governments responding to the questionnaire, the North Carolina local governments meet the standards for financial administration better than do the local governments of Georgia. The difference is very marked in some areas, particularly those where the standards set forth in this study have been widely recognized for some time, such as double-entry accounting, auditing, the adoption of budgets, and other similar areas. If, as is suspected, the sample is biased in favor of reporting the more advanced units, the nature and extent of the response in the two states is such that it is probable that the over-all difference is even greater than is indicated by the sample. It was also observed that there is evidence in the sample to support the position that laws are not self-implementing and that adherence to the laws is greatest in those aspects subject to administrative supervision. One final note was that, among the units responding to the questionnaire, the financial administration practices of the Georgia governments were not as far below the standards as might be expected from the lack of state regulation. Some external influences which may be related to this situation are mentioned in Chapter X.

An examination of selected economic, social, and governmental indicators

In the final chapter of the study, a number of

comparisons were made of economic, social, and governmental data pertaining to the case-study states. The purpose of the comparisons was to determine whether the data examined tended to support or to refute the results of the earlier comparisons. The analysis to this point had identified standards of local government financial administration and had examined the role of the state in encouraging observance of the standards. The examination of the case study states then led to the conclusions that the standards are observed to a greater extent by the State of North Carolina, and by the local governments within the state. It is to be expected that some benefit to citizens of North Carolina would result from the higher standards of financial administration. The economic, social, and governmental indicators were examined to determine whether they gave evidence of such benefits.

The general economic and social indicators such as personal income per capita, salary and wage levels, and others, were contradictory and inconclusive, neither supporting nor refuting the expectations.

The governmental indicators, however, generally supported the position that the citizens of North Carolina do receive some benefits from the better financial administration practices in that state. The strongest indications were found in the area of debt administration which is the area of strongest state supervision in North Carolina.

It is recognized that many factors influence statistics such as those compared in this chapter, and a number of such influences were discussed briefly. Nonetheless the author's conclusions were that although the evidence does not prove conclusively, it strongly suggests that local government financial administration is more consistent with the standards in North Carolina than in Georgia and that direct benefits to the citizens of North Carolina result from the better financial practices. It was also concluded that the standards, as set out early in the study, provide a useful tool for studying and evaluating the structure of a state for the supervision of financial administration practices of its local governments and for evaluating the practices of the local governments.

APPENDICES

APPENDIX A

OUTLINE OF STANDARDS OF ORGANIZATION FOR FINANCIAL ADMINISTRATION

- I. Organization, state
 - A. Constitutional provisions
 - 1. Few and short
 - 2. Fundamental and timeless
 - 3. State-wide in application
 - 4. Specific provisions
 - a) Home-rule authorized with respect to functional affairs
 - b) State supervision over financial affairs
 - c) Silent on taxes and debt
 - B. Statutes
 - 1. Broad statements of legislative policy
 - 2. Provision for flexibility through administrative action
 - C. Administrative organization, state
 - 1. Two-level state local government commission established
 - a) Top-level commission
 - 1) Broadly representative
 - 2) Policy functions
 - 3) Advice to legislature or state officials
 - 4) Coordination with line departments of state government
 - 5) Appellate function
 - b) Lower-level operating divisions
 - 1) Various divisions to meet state needs
 - 2) Finance division the chief concern of this study
 - a) Supervise local units
 - b) Supplied with sufficient funds and authority
 - c) Appeals from decisions of finance division
- II. Organization, local
 - A. Strong executive governmental forms
 - 1. Administrative organization, budgets, accounting, reporting, all on functional basis, use of responsibility accounting
 - B. Centralized financial operations under finance director or equivalent
 - 1. Functional breakdown of finance department
 - a) Accounting
 - b) Assessments and billing
 - c) Purchasing
 - d) Cashier
 - 2. Budget officer responsible to executive but liaison with finance

- C. Implementation of local organization standards
 - 1. Constitutional home rule provisions, financial supervision reserved to state
 - 2. Statutory provisions
 - a) Establish division of local government finance
 - 1) Define duties
 - 2) Give authority commensurate with responsibility
 - 3) Provide sufficient funds to staff properly
 - b) Broad statements of legislative intent
 - 1) Requiring centralized financial administration in local units
 - 2) Require adoption of budget before fiscal year begins
 - 3) Require maintenance of adequate records
 - 4) Require preparation and publication of annual reports
 - 5) Require annual audits by certified public accountants
 - 6) Require filing of advance copy of proposed budget with local government finance division for review
 - 7) Designate uniform fiscal year for all units
 - 8) Require filing of copy of audited annual report with the division of local government finance
 - 9) Specifically authorize division of local government finance to set specifications for the implementation of the above statutes
- 3. Administrative action
 - a) Prepare and distribute regulations as necessary to implement statutes
 - b) Prepare and distribute manuals setting forth and explaining requirements
 - c) Supervise, advise, and assist local officials as needed

OUTLINE OF STANDARDS OF STATE SUPERVISION OF LOCAL GOVERNMENT
DEBT AND TAX ADMINISTRATION

I. Property tax administration

A. Tax limitation laws

1. No constitutional provisions
2. No rate limitations
3. If rate limitations used
 - a) Base on state-equalized appraisals at 100 per cent of fair market value
 - b) One over all rate limit, no limits for particular purposes
 - c) One rate for county, one rate for city, no independent taxing districts (schools excluded from consideration)
 - d) Provide flexibility either through vote of citizens or through administrative action

B. Assessment of property

1. Forms, records, reports, procedures prescribed and supervised by division of local government finance
2. State examined and licensed assessors
3. Regular revaluations required
4. Equalization by assessments subdivision, division of local government finance. Right to act on own initiative
5. State assessment of utilities
6. Appeals to state-local government commission

II. Debt administration

A. No constitutional provisions

B. Statutory limits

1. Stated as percentage of state-equalized full value assessments
2. Include all forms of debt, no exclusion of self-supporting or revenue bonds or short-term debt
3. No separate limits for special districts
4. Provide for proper application of proceeds according to authorization of issue

C. Supervision by division of local government finance

1. Authority to permit exceeding of limits on basis indicated by legislature (ability to pay and net interest cost tests suggested)
2. Sale of all local bonds and notes
3. Assistance with debt within debt limit
4. Approval or disapproval of debt in excess of limits
 - a) Local officials to have right of appeal to local voters
5. Maintenance of complete debt files
 - a) Notices to local units of approaching maturities

OUTLINE OF STANDARDS FOR BUDGETARY PLANNING, ACCOUNTING, AND CONTROL

- I. Budgetary planning and control
 - A. Allocation of resources and efficient utilization the problem
 - B. Program or performance budgeting the standard
 1. Definition of objectives
 - a) Both short-run and long-run objectives considered
 2. Examination of alternative routes to objectives
 - a) Costs involved
 - 1) Anticipated levels and quality of services made specific
 - 2) Methods of rendering services made specific
 - 3) Both capital outlays and operating costs considered
 - b) Timing
 - c) Reconciling conflicts
 3. Identification of potential sources of funds to finance outlays
 - a) Both long-term and short-term sources considered
 4. Adoption of a plan
 - a) Public hearings before adoption
 - b) Advance copy of proposed budget to state's division of local government finance
 - c) Adoption of budget before start of budget year
 - d) Balanced budget required
 - 1) Revenues to be anticipated on a cash basis
 - 2) Expenditures to be anticipated on an accrual basis
 - 3) Provision for repayment of revenue anticipation notes or elimination of deficits required
 - 4) Qualitative and quantitative aspects of services made specific
 - e) Adoption by formal resolution, recorded in minutes
 - f) Chief administrator authorized to establish allotments to control actual spending
 5. Execution of the plan
 - a) Continuous comparison of plan with results necessary
 - 1) Use of appropriation-expenditure records
 - 2) Use of statistical records relative to qualitative and quantitative aspects of plan and results

- 3) Maintenance of revenue records showing planned and realized revenues
 - 4) Regular budgetary comparison reports, both financial and statistical
 - b) Evaluation of budgetary reports
 - c) Corrective action as indicated by evaluation
- II. Accounting and related procedures
- A. Centralized under a finance director - unit-wide jurisdiction
 - B. Use of fund accounting
 - 1. Use of National Committee on Governmental Accounting recommendations the basic standard
 - C. Double entry accounting
 - 1. Complete, self-balancing ledgers
 - 2. Subsidiary records as required
 - D. Standard classifications of accounts, state-wide
 - 1. Based on recommendations of National Committee on Governmental Accounting
 - E. Enterprise accounting on commercial basis
 - F. Modification of accrual basis for general accounting
- III. Accounting and internal control, special areas
- A. Assets, general considerations
 - 1. Establish existence of any assets rightfully the property of unit
 - 2. Provide physical protection and value protection
 - 3. Control custody and use
 - 4. Control disposition
 - B. Application of above to selected assets
 - 1. Cash
 - a) Receipts
 - 1) Collecting agency kept adequately informed of amounts due
 - 2) Prompt and vigorous collection action
 - 3) Point of receipt procedures
 - a) Use of pre-numbered forms in multiple copies
 - b) Use of validating or other registers
 - c) Daily cash reports required
 - d) Collections deposited intact daily
 - 4) Authorized depositories required
 - a) Deposits adequately secured
 - 5) Separation of receipts by funds
 - 6) All deposits in name of unit or fund
 - 7) Employees bonded
 - 8) Provide physical protection
 - 9) Provide insurance
 - b) Control of payments
 - 1) Begin at point where obligation is incurred
 - a) Centralized purchasing
 - b) Approval of purchase orders before issuance

- 1) Proper expenditure
 - ii) Unencumbered appropriation balance available
 - iii) Encumbrances recorded
 - 2) Control at point of payment
 - a) Cashier's signature required
 - i) Checks signed only if properly supported
 - b) Control extended to all payments, not just purchases
 - c) Reconciliations and audit procedures by accounting section of unit
 - 2. Receivables
 - a) Separate billing from collection
 - b) Controls maintained by accounting department
 - c) No abatements except by governing body
 - 3. Other property records
 - a) Standards quoted from Municipal Finance Administration
- C. Liabilities
- 1. Formally recorded
 - 2. Separate accounts for general bonded debt
 - a) Integrated with general records
- D. Surplus
- 1. Amounts represented by receivables not included
 - 2. Segregation of amounts invested in inventories, etc.
 - 3. Commercial basis for enterprise surplus

OUTLINE OF STANDARDS FOR REPORTING AND AUDITING

I. Reporting

A. External

1. Complete annual financial reports
 - a) Given publicity
 - b) Freely available
 - c) Standards based on publications of National Committee on Governmental Accounting. Standardized for all units
 - d) Prompt issuance essential
 - e) Audited reports issued if feasible

B. Internal

1. Annual statements same as external
2. Interim statements
 - a) Program type budget comparisons, including statistical and work measurement data
 - b) Cash flow statements
 - c) Balance sheets
 - d) Other reports as required

C. Reports to finance division, state-local government commission

1. Advance copies of budget proposals
2. Copies of budgets as adopted
3. Complete audited annual reports
4. Other reports as required

II. Auditing

A. Annual audits of all local units, including all activities

1. By independent certified public accountants or by auditors on staff of finance division, state-local government commission
2. Opinion statement required in all cases
3. Copy of report filed with division of local government finance

III. Implementing the standards

A. No constitutional provisions

B. Broad statements of legislative policy as previously stated

1. Details of implementation left to state's division of local government finance

SUMMARY OF ACCOUNTING PRINCIPLES AND PROCEDURES AS STATED
BY THE NATIONAL COMMITTEE ON GOVERNMENTAL ACCOUNTING

Principles

1. A municipal accounting system must make it possible (1) to show that legal provisions have been complied with and (2) to reflect the financial condition and financial operations of the municipality.

2. If legal and sound accounting provisions conflict, legal provisions must take precedence. It is, however, the finance officer's duty to seek changes in the law which will make such law in harmony with sound accounting principles.

3. The general accounting system should be on a double-entry basis with a general ledger in which all financial transactions are recorded in detail or in summary. Additional subsidiary records should be kept where necessary.

4. Every municipality should establish the funds called for either by law or by sound financial administration. It should be recognized, however, that funds introduce an element of inflexibility in the financial system. Accordingly, consistent with legal provisions and requirements of sound financial administration, as few funds as possible should be established.

5. Depending on the legal and financial requirements mentioned immediately above, the following types of funds are recognized: (1) General, (2) Special Revenue, (3) Working Capital, (4) Special Assessment, (5) Bond, (6) Sinking, (7) Trust and Agency, and (8) Utility or Other Enterprise. This classification of funds to the extent required should be followed in the budget document and in the municipality's financial reports.

6. A complete balancing group of accounts should be established for each fund. This group should include all of the accounts necessary to set forth the financial condition and financial operations of the fund and to reflect compliance with legal provisions.

7. A clear segregation should be made between the accounts relating to current assets and liabilities and those relating to fixed assets and liabilities. With the exception of Working Capital, Utility or Other Enterprise, or Trust Funds, fixed assets should not be carried in the same fund with the current assets but should be set up in a self-balancing group of accounts known as the General Fixed Assets Group of Accounts. Similarly, except in Special Assessment and Utility Funds, long-term liabilities should not be carried with the current liabilities of any

fund but should be shown in a separate self-balancing group of accounts forming part of the General Bonded Debt and Interest group of accounts.

8. The fixed asset accounts should be maintained on the basis of original cost, or the estimated cost if the original cost is not available, or, in the case of gifts, the appraised value at the time received.

9. Depreciation on general municipal fixed assets should not be computed unless cash for replacements can legally be set aside. Depreciation on such assets may be computed for unit cost purposes even if cash for replacements cannot legally be set aside providing these depreciation charges are used for memorandum purposes only and are not reflected in the accounts.

10. The accounting system should provide for budgetary control for both revenues and expenditures, and the financial statements should reflect among other things, budgetary information.

11. The use of the accrual basis in accounting for revenues and expenditures is recommended to the extent applicable. Revenues, partially offset by provisions for estimated losses, should be taken into consideration when earned, even though not received in cash. Expenditures should be recorded as soon as liabilities are incurred.

12. Revenues should be classified by fund and source; and expenditures by fund, function, department, activity, character, and by main classes of objects, in accordance with standard classifications. (See the Committee's publication A Standard Classification of Municipal Accounts.)

13. Cost accounting systems should be established wherever costs can be measured. Each cost accounting system should provide for the recording of all the elements of cost incurred to accomplish a purpose, to carry on an activity or operation, or to complete a unit of work or a specific job. Although depreciation on general municipal fixed assets may be omitted in the general accounts and reports, it should be considered in determining unit costs if a cost accounting system is used.

14. A common terminology and classification should be used consistently throughout the budget, the accounts, and the financial reports.

Standard Procedures

1. The accounts should be centralized under the direction of one officer. He should be responsible for keeping or supervising all accounts and for preparing and issuing all financial reports.

2. A budget should be prepared by every municipality even if not required by law because such budgets are essential to the proper management of its financial affairs. A distinction between the different funds must be made in such budget.

3. As soon as purchase orders or contracts are signed, the resulting obligations should be recorded at once as encumbrances of the funds and appropriations affected.

4. Inventories of both consumable and permanent property should be kept in subsidiary records controlled by accounts in the general accounting system. Physical inventories of both consumable and permanent property should be taken at least annually and the accounts and records should be made to agree with such inventories.

5. The accounting for municipal business enterprises should follow the standard classifications employed by similar private enterprises. Each college, hospital, library, and other public institution should follow the standard classification for such institutions.

6. Financial reports should be prepared monthly or oftener, to show the current condition of the budgetary accounts and other information necessary to control operations. At least once each year a general financial report should be prepared and published.

7. There should be general uniformity in the financial reports of all municipalities of similar size and type.

8. A periodic audit by independent accountants is desirable. (See Part Three of this volume.¹)

¹National Committee on Governmental Accounting, Municipal Accounting and Auditing (Chicago, Municipal Finance Officers Association, 1951), pp. 1-3.

APPENDIX B

Local Government Questionnaire

Please answer as many questions as you can, but if any question is not applicable or the information is not available, please skip that question and go on to the next. If you feel that your answer to any question needs some qualification or comment, please feel free to write comments on the questionnaire sheet or write them on a separate sheet and refer by number to the questions to which they pertain. All comments or suggestions will be appreciated, and copies of budgets, financial statements, organization charts, or other pertinent materials will likewise be greatly appreciated.

Note: The term "unit" as used throughout this questionnaire (except in the cost accounting questions) refers to cities or towns having populations of 1,000 persons or more, and to all counties. Other forms of local units, such as water and sewer districts, and towns of less than 1,000 are outside the scope of this study.

Please indicate what type of governmental unit you are reporting on by checking the appropriate blank: City or town _____; County _____.

Name of city, town, or county _____ Population -
1960 Census _____

A. ORGANIZATION

1. Please indicate the type of governing body or administrator in charge of the local unit on which you are reporting:

If a city or town: Mayor-council _____; Commission _____;
Council-manager _____.

If a county: Commissioners of roads & revenues _____;
Ordinary _____; Manager _____; Board of
commissioners _____; Commissioners-
manager _____.

2. Is the organization of the unit divided up along functional lines, that is, along lines such as General Administration, Finance, Public Safety, etc. _____? (If an organization chart is available, a copy would be appreciated.)
3. If there is any individual in the governmental organization who has administrative responsibility over all aspects of local finance? _____

4. If the answer to the preceding is yes, what is the title of the chief financial administrator? _____
5. Is there a finance department? ___ A finance director? ___
A chief accountant or equivalent? _____
6. On what date does the fiscal year of the governmental organization end? _____

B. BUDGETARY ACCOUNTING AND CONTROL

1. Is a budget prepared for the local unit? _____
2. If the answer to the preceding is yes, by what date is it typically approved by the governing body? _____
3. Does the budget follow the same organizational pattern as is used in the ledger accounts (i.e., the same fund, functional, departmental or other classifications)? _____
4. Is the terminology used in the budget the same as is used in the list of ledger accounts? _____
5. Is the budget formally adopted as an ordinance or official act of the governing body? _____
6. Is the budget used as the authorization to department heads or others to spend the funds of the unit? _____
7. Are the amounts appropriated in the budget made available for spending only in installments, such as quarterly or monthly allotments? _____
8. If the answer to the preceding is yes, are the allotments on a: monthly _____; quarterly _____; or other basis (specify basis)? _____
9. Is the budget recorded in the ledger accounts? _____
10. If budgetary accounts are maintained, are purchase orders recorded in the accounts at the time they are signed or approved? _____
11. Are encumbrances recorded in the accounts at any time other than as orders are placed or commitments made, such as at the end of the month, before the preparation of financial statements, etc.? _____ (Indicate when.) _____
12. Are statements prepared regularly which compare the amounts of revenues estimated with the amounts of revenues actually collected or realized? _____

13. Are statements prepared regularly which compare the amounts appropriated for various purposes or activities with the amounts of actual expenditures and encumbrances related to those purposes or activities? _____
14. Are the financial reports, either formal or informal, used by the governing body to assure adherence to the expenditure limits established by the budget? _____
15. Are over-expenditures of appropriations tolerated by the governing body? _____
16. If the answer to the preceding is yes, please indicate whether, in your opinion, over-expenditures occur: rarely____; occasionally____; often_____.
17. What official (identify by position) has authority to make transfers from one appropriation to another? _____
18. Is provision made for the regular collection and reporting of statistical data relating to the operations of the local unit, such as number of persons served, square yards of paving, quantities of material used, etc.? _____
19. If the answer to the preceding is yes, is such data used in developing performance budgets? _____ (If so, please identify activities to which it is applied.)
20. Are budgets of any kind prepared for periods in excess of one year? _____ (Please indicate period or periods covered.)
21. If long-term budgets are prepared, do they cover: current operations? _____; Capital requirements? _____; Other (identify) _____

C. GENERAL ACCOUNTING

1. Is the accounting system on a double entry basis? _____
2. Does the ledger or ledgers include a set of accounts for each fund? _____
3. Is a separate cash account maintained in the appropriate ledger for each fund owning cash? _____
4. Are detailed records maintained of consumable supplies and materials on hand? _____

5. Are detailed inventory records (that is, records which show each parcel of land, each piece of equipment, etc., individually) maintained of fixed assets? _____
6. Do the fixed asset records identify the sources of the the funds which were used to acquire the fixed assets (i.e., current revenues, bond proceeds, etc.)? _____
7. Please indicate on what basis the fixed assets are carried in the accounts: Original cost____; Estimated cost____; Appraised values____; Partially on original cost and partially on estimated or appraised values____; On some other basis____. (Please describe.)
8. Is depreciation computed on general fixed assets (those not in working capital, utility or other enterprise, or trust funds)? _____
9. Is depreciation computed on fixed assets of: Working capital funds?____; Utility or other enterprise funds?____; Trust funds?_____
10. Please indicate the basis on which depreciation is computed on fixed assets: (if more than one basis is used, please check or name each basis) Original cost____; Replacement cost____; Other (identify)_____
11. Is an amount of cash being set aside as a fund for the replacement of (or addition to) fixed assets? _____
12. If such a cash fund is being maintained, and is on some basis other than in proportion to the depreciation being computed, please indicate the nature of the fund and how contributions to it are computed: _____
13. If long-term debt accounts are maintained within the accounts of any fund, please identify the fund or funds: General____; Special revenue____; Working capital____; Utility or other enterprise____; Assessment____; Other (identify)_____
14. Do the revenue accounts classify the revenues by sources (property taxes, licenses and permits, etc.)? _____
15. Are the expenditure accounts classified by funds? _____
16. Do the expenditure accounts distinguish between current expenses and capital outlays? _____
17. Do the expenditure accounts identify debt service expenditures? _____

18. Are the expenditure accounts so labeled or grouped in the ledgers that the costs of the broad functions of government, such as general government, public safety, streets and related structures, etc., can readily be determined? _____
19. Are the expenditure accounts in the ledgers identified with departments or activities, such as police department, fire department, etc.? _____
20. Do the expenditure accounts classify the expenditures by objects of expenditure, such as wages and salaries, supplies, etc.? _____ For this purpose, classification into categories of personal services, contractual services and commodities is equivalent.
21. Is a common terminology and classification of accounts used throughout the various funds? _____
22. Is the same terminology and organizational pattern used in the financial statements? _____
23. Are computations of unit costs of services or activities made? _____
24. If the answer to the preceding is yes, is depreciation included as a cost? _____
25. Are cost accounting systems used? _____ If so, please identify the activities to which they apply.

D. FINANCIAL REPORTING

1. Are financial reports prepared at some regular intervals? _____
2. If the preceding is yes, at what intervals? _____
3. Is a general financial report prepared and published at least once each year? _____
4. Do the financial statements disclose the results of operations of the various funds separately? _____
5. Do the financial statements disclose the financial position of each fund? _____

E. INTERNAL CONTROL

1. Are separate bank accounts maintained for all funds? ___
If the answer is no, please indicate what funds, if any, have separate accounts, and what groups of funds have joint bank accounts.
2. Is a separate bank account used for payroll checks? ___
3. Is there a purchasing department, purchasing agent, or other designated individual by whom purchase orders must be authorized and signed? ___
4. Are the purchases of all departments and activities made through a single department or agent? ___
5. Does the above purchasing procedure apply to all purchases? ___
6. If the answer to the preceding is no, please indicate to what purchases it does not apply (such as less than \$1.00, less than \$5.00, etc.) ___
7. Are the financial duties divided among the personnel in such a way that the persons responsible for handling cash received or paid out do not also keep the related accounting records?
8. Are cash payments permitted to be made other than by check? ___ If so, are they made from a petty cash fund? ___
9. Are two or more signatures required on all checks? ___
10. Are pre-numbered forms used for: Checks? ___; Purchase orders? ___; Licenses and permits? ___; Tax receipts? ___ Utility bills? ___
11. What method of verification is used to be sure that the goods or services billed have been received by the unit before payment of the bill is approved? ___
12. Is the immediate recording of all receipts required and enforced? ___
13. Are receipts which belong to particular funds identified with those funds immediately upon receipt? ___
14. If the answer to the preceding is no, is provision made for the later separation of the receipts by funds? ___

15. Is the prompt deposit of all receipts in the bank required and enforced? _____
16. Are all bank accounts maintained in the name of the governmental unit, or in the name of some fund thereof? _____
17. Are bank reconciliations prepared regularly? ___ By someone other than those who handle the cash? _____
18. Is the preparation of tax bills handled by someone other than the person responsible for the collection of the taxes? _____
19. Is the amount of taxes billed recorded in the ledger? _____
20. If so, what is the source of the total billing figure used: Tax digest or scroll ___; Summary of tax bills ___; Other (identify) _____
21. Are entries made in the general ledger to record late listings, abatements, and other adjustments to the original levy, which occur after the original levy has been recorded? _____
22. Is the amount shown as taxes receivable in the ledger compared with the total of the detailed records of taxes receivable, and any differences accounted for? _____
23. If the answer to the preceding question is yes, please indicate at what intervals the comparison is made: Monthly ___; Quarterly ___; Yearly ___; Other _____
24. Is the comparison made by someone other than the tax collector? ___ If so, please identify his position or title _____
25. Is the amount billed for other kinds of receivables, such as assessments, water sales, etc., posted to an account or accounts in the ledger? _____
26. If both detailed and summary (ledger) records are maintained for miscellaneous receivables, are the two compared and any differences accounted for? _____

F. AUDITS

1. Does the governmental unit have regular audits performed by auditors not connected with the governmental unit? _____

2. If the answer to the preceding is yes, how often are the audits made? _____
3. Please indicate by whom the audits are made: Independent CPAs _____; Noncertified public accountants not connected with the governmental unit _____; Other (please specify) _____
4. How is the auditor chosen: Elected _____; Appointed _____.
(If appointed, by whom?) (Official title or position)

5. Is competitive bidding used in contracting for the audit? _____

Date _____ Prepared by _____
(Signature)

TABLE 32
 TABULATION OF RESPONSES TO LOCAL GOVERNMENT QUESTIONNAIRE
 PART I

Population in thousands	Number of replies	A2		A3		A5 (a)		A5 (b)		A5 (c)		B1		B3		B4	
		Yes	No	Yes	No	Yes	No	Yes	No	Yes	No	Yes	No	Yes	No	Yes	No
North Carolina Cities and Towns																	
1.0-2.49	29	10	9	16	10	5	8	2	4	9	4	29	0	25	0	25	1
2.5-4.99	23	18	4	18	4	2	12	0	10	9	7	23	0	23	0	22	0
5.0-9.99	13	7	4	11	2	3	7	1	6	8	1	13	0	13	0	13	0
10.0-24.99	13	11	1	12	1	6	3	4	3	8	1	13	0	13	0	13	0
25.0-49.99	6	6	0	5	1	5	1	5	1	6	0	6	0	6	0	6	0
50.0-99.99	4	4	0	4	0	3	0	4	0	3	0	4	0	4	0	4	0
100 +	2	2	0	2	0	2	0	2	0	2	0	2	0	2	0	2	0
Total	90	48	23	68	18	26	31	18	24	45	13	90	0	86	0	85	1
North Carolina Counties																	
5.0-9.99	5	1	3	1	3	0	1	0	1	4	0	5	0	4	0	5	0
10.0-24.99	14	3	8	9	4	3	3	2	2	12	1	14	0	14	0	14	0
25.0-49.99	17	6	13	2	13	3	5	0	3	16	0	17	0	16	0	17	0
50.0-99.99	15	7	6	10	5	1	5	0	5	14	0	15	0	15	0	15	0
100 +	5	4	5	0	5	4	0	3	0	3	0	5	0	5	0	5	0
Total	56	20	23	38	14	11	14	5	11	49	1	56	0	54	0	56	0
Georgia Cities and Towns																	
1.0-2.49	7	4	2	7	0	3	8	2	3	3	3	4	2	4	0	4	0
2.5-4.99	23	12	4	12	9	4	8	3	7	7	8	12	10	12	8	14	0
5.0-9.99	12	8	3	9	3	3	4	2	3	5	5	11	1	10	0	11	0
10.0-24.99	16	11	2	15	1	3	10	6	6	6	3	14	2	14	0	13	1
25.0-49.99	3	3	0	3	0	2	1	2	1	3	0	3	0	3	0	2	0
50.0-99.99	1	1	0	1	0	1	1	1	1	1	0	1	0	1	0	1	0
100 +	3	3	0	3	0	3	0	1	1	2	0	3	0	3	0	3	0
Total	65	42	11	50	13	18	26	17	21	27	19	48	15	47	8	48	1
Georgia Counties																	
5.0-9.99	8	0	5	4	3	0	5	0	4	0	4	4	3	5	0	5	0
10.0-24.99	11	1	4	6	5	0	7	0	3	1	4	5	6	3	4	3	1
25.0-49.99	6	3	3	1	5	2	4	1	4	0	4	4	2	4	0	4	0
50.0-99.99	1	1	0	1	0	1	0	1	1	1	0	1	0	1	0	1	0
100 +	5	3	2	5	0	4	1	1	1	3	1	5	0	5	0	5	0
Total	31	8	14	17	13	7	17	4	13	5	13	19	11	18	1	18	1

TABLE 32 (continued)

Population Number in thousands	B5		B6		B7		B9		B10		B11		B12		B13		
	replies	Yes	No	Yes	No	Yes	No	Yes	No	Yes	No	Yes	No	Yes	No	Yes	No
North Carolina Cities and Towns																	
1.0-2.49	29	28	0	23	5	2	25	16	8	6	19	6	10	25	2	24	4
2.5-4.99	23	23	0	21	2	2	20	15	8	5	16	7	8	19	2	17	4
5.0-9.99	13	13	0	11	2	3	0	13	0	2	0	2	8	13	0	13	0
10.0-24.99	13	13	0	13	0	11	0	13	0	4	9	2	10	13	0	13	0
25.0-49.99	6	6	0	6	0	1	5	6	0	1	5	0	3	6	0	6	0
50.0-99.99	4	4	0	4	0	0	4	4	0	1	4	1	2	4	0	4	0
100 +	2	2	0	2	0	0	2	2	0	1	1	1	1	2	0	2	0
Total	90	89	0	80	9	10	67	69	16	23	50	21	42	82	4	79	8
North Carolina Counties																	
5.0-9.99	5	4	0	3	1	1	4	5	0	3	1	1	2	1	3	2	2
10.0-24.99	14	14	0	13	1	5	9	12	2	2	11	3	5	9	4	7	5
25.0-49.99	17	17	0	17	0	7	9	11	6	3	10	3	9	11	6	16	1
50.0-99.99	15	15	0	14	1	4	10	15	0	1	12	1	9	13	1	13	2
100 +	5	5	0	4	1	0	5	5	0	3	2	2	3	3	2	5	0
Total	56	55	0	51	4	17	37	48	8	12	36	10	28	37	16	43	10
Georgia Cities and Towns																	
1.0-2.49	7	4	0	2	1	3	2	1	3	2	2	1	2	3	0	3	0
2.5-4.99	23	9	5	10	4	4	11	4	10	2	11	10	1	11	8	12	4
5.0-9.99	12	10	1	7	4	7	7	4	7	2	8	2	8	9	1	7	3
10.0-24.99	16	13	0	13	1	3	10	11	3	6	7	5	6	14	1	12	2
25.0-49.99	3	2	1	2	1	0	2	3	0	1	2	0	3	2	1	3	0
50.0-99.99	1	1	0	1	0	0	1	1	0	1	0	0	1	1	0	1	0
100 +	3	3	0	2	1	2	1	1	2	2	1	1	2	3	0	3	0
Total	65	42	7	37	12	14	34	25	25	15	31	19	23	43	11	49	9
Georgia Counties																	
5.0-9.99	8	5	0	4	0	0	4	3	2	0	3	1	2	3	3	3	3
10.0-24.99	11	3	1	2	3	1	5	0	5	0	5	0	4	2	4	1	1
25.0-49.99	6	1	3	3	1	0	4	0	4	0	2	0	3	4	1	4	1
50.0-99.99	1	1	0	1	0	1	0	1	0	0	1	0	0	1	0	1	0
100 +	5	5	0	4	1	1	4	1	4	1	2	2	3	4	1	5	1
Total	31	15	4	14	5	3	17	8	12	2	13	3	13	14	12	14	11

TABLE 32 (continued)

Population Number in thousands	B14		B15		B18		B19		B20		C1		C2		C3	
	Yes	No	Yes	No	Yes	No	Yes	No	Yes	No	Yes	No	Yes	No	Yes	No
North Carolina Cities and Towns																
1.0-2.49	23	4	21	6	4	20	2	2	0	28	27	1	26	1	22	5
2.5-4.99	29	3	13	7	5	12	4	4	2	19	21	0	21	0	14	7
5.0-9.99	23	11	9	4	4	8	2	3	2	10	11	1	12	0	10	3
10.0-24.99	13	12	8	5	6	6	1	4	2	11	13	0	13	0	13	0
25.0-49.99	6	0	4	2	5	1	2	1	1	4	6	0	6	0	6	0
50.0-99.99	4	0	3	1	3	1	2	1	3	4	4	0	4	0	4	0
100 +	2	0	0	0	0	0	0	0	2	0	2	0	2	0	2	0
Total	90	76	60	25	27	50	13	16	10	75	84	2	84	1	71	15
North Carolina Counties																
5.0-9.99	4	0	2	2	0	4	0	0	0	4	3	2	5	0	3	2
10.0-24.99	5	2	7	5	1	8	1	2	0	13	12	1	13	0	10	1
25.0-49.99	14	11	11	6	2	12	1	1	1	14	17	0	17	0	15	1
50.0-99.99	17	15	8	6	0	8	0	1	1	14	15	0	15	0	12	2
100 +	15	13	8	6	0	5	1	0	1	4	4	0	5	0	3	2
Total	5	5	3	2	3	35	3	4	5	49	51	3	55	0	43	8
56	48	31	21	3	3	0	2	2	0	3	5	0	6	0	4	2
Georgia Cities and Towns																
1.0-2.49	7	3	0	1	1	4	2	0	0	3	5	0	6	0	4	2
2.5-4.99	23	14	9	6	4	12	2	2	0	17	15	5	20	2	17	5
5.0-9.99	12	9	10	3	3	7	2	1	1	9	10	1	10	1	9	2
10.0-24.99	16	13	11	3	7	6	5	2	2	12	14	1	16	0	12	4
25.0-49.99	3	3	1	2	1	2	1	0	1	3	3	0	3	0	3	0
50.0-99.99	1	1	0	1	1	1	0	0	1	0	1	0	1	0	1	0
100 +	3	3	1	2	1	2	0	1	0	3	3	0	3	0	3	0
Total	65	46	32	15	17	30	11	7	4	47	51	7	59	3	49	13
Georgia Counties																
5.0-9.99	8	3	2	2	0	5	0	0	0	6	4	3	3	3	3	2
10.0-24.99	11	2	5	2	1	7	0	0	0	9	7	4	8	3	5	5
25.0-49.99	6	3	4	0	0	3	0	0	0	4	5	0	3	2	2	0
50.0-99.99	1	1	1	0	0	0	1	0	0	1	1	0	1	0	1	1
100 +	5	5	2	3	2	5	4	1	0	5	4	0	5	0	4	0
Total	31	14	14	7	7	15	5	1	0	25	21	7	20	8	13	10

TABLE 32 (continued)

Population in thousands	Number of replies	C4		C5		C6		C8		C11		C14		C15		C16	
		Yes	No	Yes	No	Yes	No	Yes	No	Yes	No	Yes	No	Yes	No	Yes	No
North Carolina Cities and Towns																	
1.0-2.49	29	6	21	15	9	11	13	8	10	8	16	24	0	27	0	25	1
2.5-4.99	23	8	12	16	5	13	6	7	10	2	14	20	0	18	3	21	1
5.0-9.99	13	2	11	9	6	5	6	0	10	2	10	13	0	13	0	11	2
10.0-24.99	13	5	7	6	7	5	6	1	9	5	8	13	0	13	0	13	0
25.0-49.99	6	3	2	5	1	3	4	3	3	2	4	6	0	6	0	5	1
50.0-99.99	4	3	1	3	1	0	2	0	4	0	3	4	0	4	0	4	0
100 +	2	1	1	3	0	0	0	1	0	1	1	2	0	2	0	2	0
Total	90	29	55	55	27	38	37	19	48	20	56	82	0	83	3	81	5
North Carolina Counties																	
5.0-9.99	5	1	2	1	2	1	4	0	3	0	4	3	0	4	0	5	0
10.0-24.99	14	3	10	4	5	4	11	1	7	0	6	10	1	13	0	12	1
25.0-49.99	17	1	14	7	8	2	9	2	10	2	11	17	0	17	0	16	1
50.0-99.99	15	1	12	6	6	2	9	2	10	2	9	14	0	14	0	15	0
100 +	5	3	2	2	2	2	3	1	4	0	5	5	0	5	0	5	0
Total	56	9	40	20	26	13	28	5	34	4	35	49	1	53	0	53	2
Georgia Cities and Towns																	
1.0-2.49	7	2	3	3	2	1	4	3	0	0	6	5	0	5	0	2	1
2.5-4.99	23	6	17	7	15	8	13	7	11	4	17	19	1	18	3	14	4
5.0-9.99	12	5	7	4	7	6	5	6	5	1	9	9	2	8	2	11	1
10.0-24.99	16	7	8	5	10	4	9	4	10	2	14	16	0	16	0	14	1
25.0-49.99	3	0	2	1	2	1	1	1	2	0	3	3	0	2	1	2	1
50.0-99.99	1	1	0	0	0	0	1	0	1	0	1	1	0	1	0	1	0
100 +	3	3	0	1	1	1	1	1	1	1	1	3	0	3	0	2	1
Total	65	24	36	31	29	21	34	22	39	8	50	56	3	53	6	46	9
Georgia Counties																	
5.0-9.99	8	1	5	4	4	1	5	2	2	0	5	6	1	4	2	3	3
10.0-24.99	11	2	9	6	6	4	5	5	5	0	10	6	2	7	3	6	0
25.0-49.99	6	0	6	1	2	0	3	0	4	0	6	5	0	2	3	6	0
50.0-99.99	1	0	1	0	1	1	0	0	1	0	1	1	0	1	0	1	0
100 +	5	4	1	1	1	3	1	0	3	2	3	5	0	5	0	4	0
Total	31	7	22	14	12	11	14	7	15	2	25	23	3	19	8	20	6

TABLE 32 (continued)

Population Number in thousands	Number of replies	C17		C18		C19		C20		C21		C22		C23		C24	
		Yes	No	Yes	No	Yes	No	Yes	No	Yes	No	Yes	No	Yes	No	Yes	No
North Carolina Cities and Towns																	
1.0-2.49	29	26	1	26	0	27	0	27	1	27	0	27	0	13	12	0	7
2.5-4.99	23	23	0	23	0	23	0	22	0	23	0	22	0	10	8	4	6
5.0-9.99	13	13	0	13	0	13	0	13	0	12	1	13	0	4	8	1	3
10.0-24.99	13	13	0	13	0	13	0	13	0	13	0	13	0	1	11	0	1
25.0-49.99	6	6	0	6	0	6	0	6	0	6	0	6	0	2	3	1	1
50.0-99.99	4	4	0	4	0	4	0	4	0	4	0	4	0	0	3	0	3
100 +	2	2	0	2	0	2	0	2	0	2	0	2	0	0	2	0	0
Total	90	87	1	87	0	88	0	87	1	87	1	87	1	33	45	6	21
North Carolina Counties																	
5.0-9.99	5	4	0	3	1	4	1	3	0	4	0	4	0	2	1	0	2
10.0-24.99	14	14	0	11	1	12	0	14	0	13	1	13	0	5	5	0	5
25.0-49.99	17	17	0	15	1	15	1	16	1	16	0	15	0	3	10	0	4
50.0-99.99	15	15	0	14	0	15	0	15	0	15	0	14	1	3	11	2	1
100 +	5	5	0	5	0	5	0	5	0	5	0	5	0	1	4	0	0
Total	56	55	0	48	3	51	2	53	1	53	1	51	1	16	31	2	12
Georgia Cities and Towns																	
1.0-2.49	7	2	1	4	0	3	1	4	0	4	0	4	0	1	2	0	1
2.5-4.99	23	16	3	20	0	19	0	19	0	19	0	20	0	7	12	2	5
5.0-9.99	12	8	3	11	1	11	1	11	1	11	1	11	0	3	9	3	3
10.0-24.99	16	12	2	15	0	15	0	15	0	15	0	14	0	5	8	2	0
25.0-49.99	3	3	0	3	0	3	0	3	0	3	0	3	0	0	3	0	0
50.0-99.99	1	1	0	1	0	1	0	1	0	1	0	1	0	0	1	0	0
100 +	3	3	0	2	0	3	0	3	0	3	0	3	0	1	2	0	1
Total	65	45	8	56	1	55	2	56	1	56	1	56	0	17	37	6	12
Georgia Counties																	
5.0-9.99	8	4	2	7	0	7	0	7	0	6	1	7	0	3	4	1	1
10.0-24.99	11	4	3	11	0	11	0	11	0	11	0	11	0	4	6	1	3
25.0-49.99	6	5	0	5	0	5	1	6	0	5	1	5	1	0	6	0	0
50.0-99.99	1	1	0	1	0	1	0	1	0	1	0	1	0	0	1	0	0
100 +	5	5	0	5	0	5	0	5	0	5	0	5	0	4	1	1	2
Total	31	19	5	29	0	29	1	30	0	28	2	29	1	11	18	4	6

TABLE 32 (continued)

Population Number in thousands	Number of replies	C25		D1		D3		D4		D5		E1		E2		E3	
		Yes	No	Yes	No	Yes	No	Yes	No	Yes	No	Yes	No	Yes	No	Yes	No
North Carolina Cities and Towns																	
1.0-2.49	29	1	17	28	0	25	3	27	0	26	2	20	8	2	27	21	7
2.5-4.99	23	4	12	22	0	22	0	21	2	19	4	14	9	8	15	20	3
5.0-9.99	13	0	11	13	0	12	0	12	1	12	1	8	5	10	3	20	3
10.0-24.99	13	2	11	13	0	13	0	13	0	13	0	10	2	11	3	13	0
25.0-49.99	6	1	4	6	0	6	0	6	0	6	0	3	3	6	0	5	1
50.0-99.99	4	1	2	4	0	4	0	4	0	4	0	2	2	4	0	4	0
100 +	2	0	2	2	0	2	0	2	0	2	0	0	2	2	0	2	0
Total	90	9	59	88	0	84	4	85	3	82	7	57	31	43	47	75	14
North Carolina Counties																	
5.0-9.99	5	0	3	3	2	4	1	4	1	4	1	4	0	2	3	1	4
10.0-24.99	14	0	8	12	1	12	1	10	2	9	4	7	7	3	11	6	8
25.0-49.99	17	0	13	16	1	16	1	14	3	13	2	12	4	3	14	12	5
50.0-99.99	15	1	13	15	0	14	1	15	0	14	1	7	8	10	5	9	6
100 +	5	0	5	5	0	5	0	5	0	5	0	3	2	4	1	4	1
Total	56	1	42	51	5	51	4	48	6	45	8	33	21	22	34	32	24
Georgia Cities and Towns																	
1.0-2.49	7	1	1	5	0	4	0	5	0	5	0	2	2	1	3	4	0
2.5-4.99	23	0	18	21	1	17	5	19	1	18	4	14	8	4	18	14	8
5.0-9.99	12	1	9	12	0	12	0	8	4	9	3	11	1	8	4	10	2
10.0-24.99	16	1	11	15	0	13	1	13	1	14	0	11	4	14	1	14	1
25.0-49.99	3	0	3	3	0	3	0	3	0	3	0	2	1	3	0	2	1
50.0-99.99	1	1	0	1	0	1	0	1	0	1	0	1	0	1	0	1	0
100 +	3	0	3	3	0	2	1	3	0	3	0	3	0	2	1	3	0
Total	65	4	45	60	1	52	7	52	6	53	7	44	16	33	27	48	12
Georgia Counties																	
5.0-9.99	8	0	4	8	0	8	0	4	3	4	3	2	6	1	7	3	4
10.0-24.99	11	1	5	11	0	9	2	11	0	6	4	2	9	3	8	4	7
25.0-49.99	6	0	6	5	0	5	0	3	3	4	1	4	1	3	3	5	1
50.0-99.9	1	0	1	1	0	1	0	1	0	1	0	1	0	1	0	1	0
100 +	5	3	3	5	0	5	0	5	0	5	0	3	2	4	1	5	0
Total	31	4	18	30	0	28	2	24	6	20	7	12	18	12	19	18	12

TABLE 32 (continued)

Population in thousands	E4		E5		E7		E8		E8		E9		E10		E10		E10		
	Yes	No	Yes	No	Yes	No	Yes	No	Yes	No	Yes	No	Yes	No	Yes	No	Yes	No	
North Carolina Cities and Towns																			
1.0-2.49	19	7	19	7	8	13	12	16	15	2	19	9	26	3	11	8	21	8	3
2.5-4.99	23	16	12	11	8	8	13	10	12	1	20	3	21	2	16	6	18	6	5
5.0-9.99	13	9	4	10	3	10	6	7	6	1	10	3	12	1	8	3	11	1	1
10.0-24.99	13	8	5	6	7	8	2	12	1	0	13	0	12	1	11	1	13	1	0
25.0-49.99	6	4	2	6	0	3	2	2	4	0	5	1	6	0	3	1	4	0	0
50.0-99.99	4	4	0	3	1	0	2	2	2	0	3	0	4	0	4	0	4	0	0
100 +	2	2	0	0	2	0	2	0	2	0	2	0	2	0	2	0	2	0	0
Total	90	62	25	58	29	45	26	50	38	52	4	72	16	83	7	55	19	73	9
North Carolina Counties																			
5.0-9.99	5	4	3	1	3	1	1	4	1	0	5	0	3	2	0	4	1	1	1
10.0-24.99	14	4	8	2	5	7	0	14	0	0	14	0	12	1	4	2	7	1	1
25.0-49.99	17	9	11	4	10	5	5	11	6	0	16	1	16	1	6	3	12	3	0
50.0-99.99	15	7	8	10	5	6	4	11	4	3	13	1	15	0	10	1	14	0	0
100 +	5	5	0	5	4	1	2	3	2	0	4	1	5	0	5	0	5	0	0
Total	56	26	30	37	12	28	20	43	13	3	52	3	51	4	25	7	39	7	2
Georgia Cities and Towns																			
1.0-2.49	7	2	4	0	2	1	3	2	3	0	3	2	5	0	1	4	5	0	0
2.5-4.99	23	15	7	6	6	9	3	7	16	0	12	9	22	0	14	3	21	1	0
5.0-9.99	12	8	4	6	7	3	7	9	9	0	8	4	12	0	9	3	13	1	0
10.0-24.99	16	13	1	10	4	10	3	11	12	0	13	2	14	0	12	3	13	1	0
25.0-49.99	3	2	1	2	0	3	0	2	1	2	2	1	3	0	3	0	3	0	0
50.0-99.99	1	1	0	0	1	0	1	0	1	0	1	0	1	0	1	0	1	0	0
100 +	3	3	0	2	1	3	0	1	2	1	2	2	3	0	3	0	3	0	0
Total	65	44	15	39	18	34	16	40	44	0	41	19	60	0	43	8	58	8	2
Georgia Counties																			
5.0-9.99	8	2	6	3	1	0	6	1	7	1	8	0	8	0	3	4	3	2	2
10.0-24.99	11	4	6	6	3	1	6	2	9	1	10	1	11	0	4	4	1	3	0
25.0-49.99	6	5	0	5	1	0	5	3	3	0	6	0	6	0	4	1	3	0	0
50.0-99.99	1	0	1	0	1	0	1	0	1	0	1	0	1	0	1	0	1	0	0
100 +	5	5	0	5	0	3	2	3	1	1	4	1	5	0	5	0	5	0	0
Total	31	16	13	19	5	5	19	10	20	11	3	29	31	0	17	7	14	7	4

TABLE 32 (continued)

Population Number in thousands	E10		E12		E13		E14		E15		E16		E17		E17		
	(d)		(e)										(a)		(b)		
	Yes	No	Yes	No	Yes	No	Yes	No	Yes	No	Yes	No	Yes	No	Yes	No	
North Carolina Cities and Towns																	
1.0-2.49	26	2	8	12	3	25	2	5	0	27	2	26	0	25	3	10	14
2.5-4.99	29	14	5	14	22	0	20	2	2	0	22	0	21	1	23	0	10
5.0-9.99	23	3	6	5	13	0	9	4	0	13	0	13	0	13	0	10	2
10.0-24.99	13	0	3	6	12	1	11	3	0	12	0	13	0	13	0	11	1
25.0-49.99	6	0	2	2	6	0	5	1	0	6	0	6	0	6	0	6	0
50.0-99.99	4	0	4	0	4	0	4	0	0	4	0	4	0	4	0	4	0
100 +	2	1	1	1	2	0	2	1	0	2	0	2	0	2	0	2	0
Total	90	73	40	84	4	76	10	16	0	86	2	85	1	86	3	53	28
North Carolina Counties																	
5.0-9.99	5	0	1	4	0	5	0	0	0	5	0	5	0	5	0	3	2
10.0-24.99	14	3	0	13	1	12	2	1	0	14	0	12	0	14	0	4	7
25.0-49.99	17	16	1	17	0	17	0	2	0	16	1	16	0	17	0	10	5
50.0-99.99	15	13	1	0	15	0	12	4	0	15	0	13	0	15	0	10	2
100 +	5	4	1	0	5	0	4	1	2	5	0	5	0	4	0	3	2
Total	56	49	3	0	1	50	6	9	0	55	1	51	0	55	0	30	18
Georgia Cities and Towns																	
1.0-2.49	7	5	0	3	7	0	5	0	3	6	0	7	0	6	0	3	2
2.5-4.99	23	22	8	11	3	22	1	2	0	21	2	23	0	23	0	7	16
5.0-9.99	12	10	5	6	11	1	10	2	0	11	1	11	0	11	1	8	3
10.0-24.99	16	15	0	5	15	1	16	0	1	15	0	15	0	16	0	9	6
25.0-49.99	3	3	0	1	3	0	3	0	1	3	0	3	0	3	0	3	0
50.0-99.99	1	0	1	0	1	0	1	0	1	1	0	1	0	1	0	1	0
100 +	3	3	1	0	3	0	3	0	1	3	0	3	0	3	0	2	1
Total	65	48	3	26	24	60	5	60	3	60	3	62	1	63	1	33	28
Georgia Counties																	
5.0-9.99	8	5	1	2	3	7	1	6	2	7	1	7	0	8	0	1	4
10.0-24.99	11	7	1	3	10	1	8	2	2	11	0	11	0	9	2	1	5
25.0-49.99	6	5	0	3	5	1	4	1	0	6	0	6	0	6	0	0	1
50.0-99.99	1	1	0	0	1	0	1	0	0	1	0	1	0	1	0	0	0
100 +	5	5	0	1	2	5	0	4	1	4	1	3	1	5	0	4	1
Total	31	23	2	4	11	28	3	24	5	29	2	28	1	29	2	10	18

TABLE 32 (continued)

Population Number in thousands	E18		E19		E21		E22		E24		E25		E26		F1		F5	
	Yes	No	Yes	No	Yes	No	Yes	No	Yes	No	Yes	No	Yes	No	Yes	No	Yes	No
North Carolina Cities and Towns																		
1.0-2.49	10	19	25	2	23	3	23	1	19	3	26	0	19	2	29	0	5	23
2.5-4.99	6	16	21	2	20	3	21	1	15	5	21	1	17	0	23	0	4	19
5.0-9.99	6	6	13	0	12	1	13	0	6	5	12	1	10	1	13	0	3	9
10.0-24.99	8	4	13	0	11	2	13	0	13	0	12	1	11	1	13	0	2	11
25.0-49.99	4	2	6	0	5	1	6	0	5	0	6	0	6	0	6	0	1	5
50.0-99.99	4	4	4	0	4	0	4	0	4	0	3	1	4	0	4	0	1	3
100 +	1	0	2	0	2	0	2	0	2	0	2	0	2	0	2	0	0	2
Total	39	47	84	4	77	10	82	2	63	14	82	4	69	3	90	0	16	72
North Carolina Counties																		
5.0-9.99	5	0	3	1	3	1	3	1	4	0	3	0	1	0	5	0	3	1
10.0-24.99	14	10	11	2	8	6	13	0	14	0	3	2	7	1	14	0	6	8
25.0-49.99	17	14	17	0	16	1	17	0	15	0	8	1	12	1	17	0	2	14
50.0-99.99	15	14	15	0	14	1	14	0	12	1	3	2	5	1	15	0	0	15
100 +	5	5	5	0	5	0	5	0	4	1	2	0	3	0	5	0	0	5
Total	56	48	51	3	46	9	52	1	49	2	19	5	28	2	56	0	11	43
Georgia Cities and Towns																		
1.0-2.49	1	5	5	2	5	2	6	1	5	1	4	2	4	1	6	1	1	6
2.5-4.99	3	19	20	3	18	1	20	1	11	7	16	4	13	3	23	0	3	20
5.0-9.99	12	7	10	0	11	1	10	1	9	0	10	2	12	2	12	0	3	9
10.0-24.99	16	7	16	0	13	1	13	2	11	0	15	3	12	1	16	0	6	8
25.0-49.99	3	3	3	0	2	1	3	0	3	0	3	0	3	0	3	0	1	2
50.0-99.99	1	1	1	0	1	0	1	0	1	0	1	0	1	0	1	0	0	1
100 +	3	3	3	0	3	0	3	0	3	0	3	0	3	0	3	0	2	1
Total	65	26	58	7	53	6	56	5	43	8	53	9	45	7	64	1	16	47
Georgia Counties																		
5.0-9.99	8	0	3	3	3	3	5	1	6	0	4	1	3	2	8	0	1	5
10.0-24.99	11	4	10	1	6	2	7	2	6	2	4	4	4	1	11	0	0	11
25.0-49.99	6	0	6	2	4	3	4	1	4	1	2	3	0	1	6	0	0	3
50.0-99.99	1	1	0	1	0	1	1	0	1	0	1	0	1	0	1	0	0	1
100 +	5	3	5	0	4	0	5	0	4	0	4	0	4	0	5	0	2	3
Total	31	8	22	9	15	10	22	4	21	3	15	6	12	3	31	0	3	23

TABLE 33
 TABULATION OF RESPONSES TO LOCAL GOVERNMENT QUESTIONNAIRE
 PART II

Population ranges	1,000-2,499	2,500-4,999	5,000-9,999	10,000-24,999
State	Ga.	Ga.	Ga.	Ga.
Number of responses	N.C.	N.C.	N.C.	N.C.
Section 1, Cities and Towns				
A1-1 Mayor-council	5	22	20	13
2 Commission		6	2	2
3 Council-manager	2	1	1	8
A6 January 31				
February 28				
March 31			3	
April 30				
May 31			1	
June 30			1	
July 31			1	
August 31			1	
September 30			1	
October 31			1	
November 30			1	
December 31			13	
B6-1 Monthly	2	1	1	2
2 Quarterly			1	1
3 Other		2	1	2
B16-1 Rarely		9	2	4
2 Occasionally	3	13	5	8
3 Often		1	2	
B21-1 Current operations	1		2	1
2 Capital requirements	1		1	4
3 Other				1
				401

TABLE 33 (continued)

Population ranges State	1,000-2,499 Ga. N.C.	2,500-4,999 Ga. N.C.	5,000-9,999 Pa. N.C.	10,000-24,999 Ga. N.C.
Number of responses				
C7-1 Original cost	2	11	14	11
2 Estimated cost		2	1	1
3 Appraised values	1	6		1
4 Partially on original cost and partially on estimated or appraised values			3	
5 Other	1	2	3	2
C9-1 Working capital				
2 Utility or other enterprise funds	1	1	2	2
3 Trust funds				
C10-1 Original cost	1	3	5	4
2 Replacement cost	1	1	1	2
3 Other			1	
C13-1 General	1	5	7	3
2 Special revenue	1	1	4	1
3 Working capital				
4 Utility or other enterprise		4	4	2
5 Assessment	1	1		1
6 Other		5	3	4
D2-1 Annual	4	5	4	4
2 Monthly		11	13	13
3 Quarterly		3	2	3
4 Other		4	1	2

TABLE 33 (continued)

Population ranges	1,000-2,499	2,500-4,999	5,000-9,999	10,000-24,999				
State	Ga.	N.C.	Ga.	N.C.				
Number of responses	Ga.	N.C.	Ga.	N.C.				
E20-1 Tax digest	5	19	21	13	8	9	13	10
2 Summary of tax bills		7	1	8	1	4	3	
3 Other		1		1				
F2-1 Annual	6	26	22	20	10	12	14	10
2 Quarterly		2		1	1		2	2
3 Other		1	1	1	1			
F3-1 Independent CPA	7	28	21	21	11	12	16	11
2 Non certified public accountants not connected with the governmental unit			2		1			1
3 Other								
Section 2, Counties								
A1-1 Commissioners of roads and revenues					7		9	1
2 Ordinary								
3 Board of commissioners					1	4		11
4 Commissioners-manager						1		3
A6 July 1						4	1	14
August 1							1	1
August 30							1	1
September 30								
December 31						4	7	

TABLE 33 (continued)

Population ranges	1,000-2,499	2,500-4,999	5,000-9,999	10,000-24,999
State	Ga.	N.C.	Ga.	N.C.
Number of responses	Ga.	N.C.	Ga.	N.C.
C13-1 General				
2 Special revenue	1	1	2	1
3 Working capital		1	2	1
4 Utility or other enterprise			1	
5 Assessment				8
6 Other	1	2		
D2-1 Annual	1	1	3	2
2 Monthly	3	1	5	3
3 Quarterly	2	1	1	1
4 Other	2	1	2	2
E20-1 Tax digest	4	3	7	13
2 Summary of tax bills		1		1
3 Other	1			
F2-1 Annual	6	5	9	14
2 Quarterly	1		1	
3 Other	2		1	1
F3-1 Independent CPA	8	5	9	14
2 Non certified public accountants not connected with the governmental unit				
3 Other			2	

TABLE 33 (continued)

Population ranges	25,000-49,999	50,000-99,999	100,000-up
State	North	North	North
Number of responses	Georgia	Georgia	Georgia
	Carolina	Carolina	Carolina
Section 1, Cities and Towns			
A1-1 Mayor-council	1	1	1
2 Commission	1	1	1
3 Council-manager	5	3	2
A6 January 31	1		
February 28			
March 31			
April 30			
May 31			
June 30	1		
July 31			
August 31		1	
September 30			
October 31			
November 30			
December 31	1		
B8-1 Monthly			2
2 Quarterly	1		
3 Other			
B16-1 Rarely	1	1	1
2 Occasionally		2	1
3 Often			
B21-1 Current operations			
2 Capital requirements	1	1	1
3 Other		1	1

TABLE 33 (continued)

Population ranges State	25,000-49,999 North	50,000-99,999 North	100,000-up North
Number of responses	Georgia Carolina	Georgia Carolina	Georgia Carolina
C7-1 Original cost	1	3	2
2 Estimated cost			
3 Appraised values	1		
4 Partially on original cost and partially on estimated or appraised values	2	1	
5 Other			
C9-1 Working capital			1
2 Utility or other enterprise funds	1	1	1
3 Trust funds	1	1	
C10-1 Original cost	1	3	2
2 Replacement cost			
3 Other			1
C13-1 General	2	1	1
2 Special revenue		1	1
3 Working capital			
4 Utility or other enterprise	2	1	1
5 Assessment	1	1	1
6 Other	3	3	1
D2-1 Annual	2		1
2 Monthly	1	1	2
3 Quarterly	5	1	1
4 Other	1	1	1

TABLE 33 (continued)

Population ranges	25,000-49,999		50,000-99,999		100,000-up	
State	Georgia	North Carolina	Georgia	North Carolina	Georgia	North Carolina
Number of responses	Georgia	North Carolina	Georgia	North Carolina	Georgia	North Carolina
E20-1 Tax digest	3	4	1	3	3	1
2 Summary of tax bills		1		1		1
3 Other		1				
F2-1 Annual	1	5	1	3	3	2
2 Quarterly	2			1		
3 Other						
F3-1 Independent CPA	3	6	1	4	3	2
2 Non certified public accountants not connected with the governmental unit						
3 Other						
<u>Section 2, Counties</u>						
A1-1 Commissioners of roads and revenues	5				2	
2 Ordinary						
3 Board of commissioners	1	16	1	12	2	2
4 Commissioners-manager		1		3	1	3
A6 July 1	1	15	1	15		5
August 1						
August 30					1	
September 30	1					
December 31	4				4	

TABLE 33 (continued)

Population ranges State Number of responses	25,000-49,999		50,000-99,999		100,000-up	
	Georgia	North Carolina	Georgia	North Carolina	Georgia	North Carolina
B8-1 Monthly	5		1	2		
2 Quarterly	1			1		
3 Other				2		
B16-1 Rarely	2		1	5	1	3
2 Occasionally	2			5	1	
3 Often						
B21-1 Current operations	1					
2 Capital requirements	2			2	1	2
3 Other					1	
C7-1 Original cost				5	2	2
2 Estimated cost	1					
3 Appraised values	1			2		
4 Partially on original cost and partially on estimated or appraised values	1					
5 Other				4	2	3
C9-1 Working capital						
2 Utility or other enterprise funds					1	
3 Trust funds					2	
C10-1 Original						
2 Replacement cost	1				2	1
3 Other				1		

TABLE 33 (continued)

Population ranges State	25,000-49,999		50,000-99,999		100,000-up	
	Georgia	North Carolina	Georgia	North Carolina	Georgia	North Carolina
Number of responses						
C13-1 General		1		2		2
2 Special revenue	1	2		1		
3 Working capital						
4 Utility or other enterprise					1	
5 Assessment		5	1	8	1	4
6 Other						
D2-1 Annual	1	8		4		
2 Monthly	5	5	1	6		4
3 Quarterly		4		3		
4 Other				1		
E20-1 Tax digest	4	12	1	12	5	5
2 Summary of tax bills		4		3		2
3 Other	1			1		
F2-1 Annual		13	1	12		4
2 Quarterly	6			2		1
3 Other		1				2
F3-1 Independent CPA		15	1	13		5
2 Non certified public accountants not connected with the governmental unit	5					
3 Other	1					

APPENDIX C

TABLE 34

STATE AND LOCAL GOVERNMENT DEBT - 1957
GEORGIA AND NORTH CAROLINA
(\$1,000'S EXCEPT PER CAPITA)

	Amount	Total Per capita	State
Total debt outstanding	(N.C.) 813,800 (Ga.) 874,603	181.98 231.93	281,225 364,003
Long term debt outstanding	(N.C.) 779,142 (Ga.) 826,216	174.23 219.10	266,225 264,003
Full faith and credit	(N.C.) 698,638 (Ga.) 263,311	156.22 69.83	265,855 38
Non-guaranteed	(N.C.) 80,504 (Ga.) 562,905	18.00 149.27	370 263,965
Short term	(N.C.) 34,658 (Ga.) 48,387	7.75 12.83	15,000 --
Net long-term debt outstanding	(N.C.) 713,937 (Ga.) 782,875	159.65 207.60	208,902 244,039
Long term debt issued	(N.C.) 67,196 (Ga.) 112,079	15.03 29.72	-- 43,000
Long term debt retired	(N.C.) 39,272 (Ga.) 33,860	8.78 8.98	15,711 14,869

TABLE 34 (continued)

	Local				
	Total	County	Municipal	Special districts	Special districts
Total debt outstanding	{ N.C. } 532,575 { Ga. } 610,611	212,815 89,421	247,147 281,403	72,613 180,309	-- 59,467
Long term debt outstanding	{ N.C. } 512,917 { Ga. } 562,213	204,689 87,445	244,678 278,825	63,550 136,691	-- 58,252
Full faith and credit	{ N.C. } 432,783 { Ga. } 263,273	203,669 62,899	226,208 139,114	2,906 3,008	-- 58,252
Non-guaranteed	{ N.C. } 80,134 { Ga. } 298,940	1,020 24,546	18,470 140,711	60,644 133,683	-- --
Short term	{ N.C. } 19,658 { Ga. } 48,387	8,126 1,976	2,469 1,578	9,063 43,618	-- 1,215
Net long-term debt outstanding	{ N.C. } 505,035 { Ga. } 538,836	202,266 84,506	239,952 266,321	62,817 134,207	-- 53,802
Long term debt issued	{ N.C. } 67,196 { Ga. } 69,079	31,499 4,966	33,877 48,805	1,820 2,909	-- 12,399
Long term debt retired	{ N.C. } 23,561 { Ga. } 18,991	10,263 3,373	11,367 8,626	1,931 4,527	-- 2,465

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BIOGRAPHICAL SKETCH

Gordon Edward Bell was born September 22, 1919 in Mt. Morris, Michigan. He was graduated from Eastern High School, Lansing, Michigan in June, 1937. After completing high school he joined the staff of the Michigan State Police in East Lansing, Michigan. While working with the State Police he attended business college evening school, studying accounting, business law, and related subjects. Upon completion of the course he passed a U.S. Civil Service Examination and received an appointment in the field audit staff of the General Accounting Office. In August, 1941 he was called into active service with the United States Navy and remained with them until August, 1945. He entered the University of Miami, Florida in 1946 and received the Bachelor of Business Administration degree, Magna Cum Laude in February of 1948. After working briefly in public accounting in Coral Gables, he entered the University of Florida in September of 1948. He served as an instructor in the Accounting Department on a one-half time basis while working toward the Master of Business Administration degree. He received the degree of Master of Business Administration in February, 1950, and subsequently

served on the accounting faculties of the George Washington University, Catawba College, and Duke University. He left Duke University in 1958 to become a partner in the public accounting firm of Riggs and Bell, CPA's in Waynesville, North Carolina. In January of 1960 he agreed to organize an Accounting Advisory Section for the North Carolina Local Government Commission and remained as Chief of the Section until June of 1962. At that time he joined the accounting faculty of the University of Georgia, with which he is presently associated. During the interval from 1950 until 1963 he completed most of the academic requirements for the degree of Doctor of Philosophy at the University of Florida, and in the spring of 1963 returned to the University to complete his residence and other requirements.

Mr. Bell is married to the former Donna Marcene Akers of Gypsum, Kansas, and is the father of four children. He holds certificates as a certified public accountant in the states of Maryland and North Carolina and is a member of the Georgia Society of Certified Public Accountants. He is also a member of the American Accounting Association, Alpha Kappa Psi, Beta Alpha Psi, and Phi Kappa Phi.

This dissertation was prepared under the direction of the chairman of the candidate's supervisory committee and has been approved by all members of that committee. It was submitted to the Dean of the College of Business Administration and to the Graduate Council, and was approved as partial fulfillment of the requirements for the degree of Doctor of Philosophy.

April 18, 1964



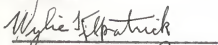
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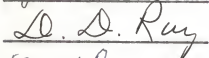
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